

Michigan Municipal Risk Management Authority
Comprehensive Annual Financial Report - June 30, 2005

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RISK

Michigan Municipal MANAGEMENT AUTHORITY

BOARD OF DIRECTORS

JAMES KOHMESCHER
Chairman
City of Wyoming

JAMES SCHARRET
Vice Chairman
City of Southfield

MICHAEL WELSCH
Secretary
Iosco County

MICHAEL BOSANAC
Monroe County

RICHARD BURKE
City of Ishpeming

MICHAEL DORNAN
City of Wixom

CINDY KING
Charter Township
of Van Buren

LEONARD PETERS
Eaton County

ROBERT SEETERLIN
Charter Township
of Waterford

THOMAS YACK
Charter Township
of Canton

MICHAEL L. RHYNER
Executive Director

October 28, 2005

The Board of Directors
Michigan Municipal Risk Management Authority
Livonia, MI 48154

Michigan Municipal Risk Management Authority (MMRMA) is a public entity self-insurance pool that provides property and liability coverages to its participating Members. Membership is limited to municipal corporations as defined by Michigan statute.

MMRMA was formed in 1980 under statutes enacted to implement the authority granted by Article 7, Sections 27 and 28 of the Constitution of the State of Michigan, which authorizes local units of government to contract with each other for the joint administration of any functions or powers which each would have the power to perform separately. Public Act, 1982, No. 138 specifically authorized local units of government to contract jointly to undertake cooperative action to provide risk management and self-insurance coverages. MMRMA was incorporated January 1, 1980, as an intergovernmental agency.

MMRMA is financed by contributions from its member municipal corporations. Contributions paid by Members are based upon underwriting criteria and guidelines approved by the Board of Directors. Contributions are calculated by applying uniform base rates to the various loss exposures and using experience modification factors to set pricing. Net operating expenditures, number of employees, size of payroll, size and complexity of operations, loss experience, loss control efforts, and other relevant risk-related criteria are factors considered in price setting.

MMRMA has three categories of membership: Individual Members – individual municipal corporations, each maintaining a separate self-insured retention; Pool Members, an association of risk-sharing members; and Affiliated Members, which are other "Public Act 138" organizations that contract with MMRMA for certain services. The only current Affiliated Member is the Michigan Community College Risk Management Authority, which contracts with MMRMA for reinsurance, claims adjusting, and underwriting services.

Section I-A

Board of Directors

October 28, 2005

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Individual Members each maintain a minimum amount of funds, in an amount established by the Executive Director, on deposit with MMRMA. The Pool, acting as a single member, also maintains funds on deposit with MMRMA. Members' funds on deposit, while accounted for in the Members' Retention Fund, are used to pay claims and related loss adjustment expenses that are obligations of the Members and to cover Member meeting expenses.

Potential members who meet membership eligibility and underwriting guidelines are accepted into MMRMA upon recommendation of the MMRMA Membership Committee and with the approval of two-thirds of the total membership of the Board of Directors. Only those Michigan municipal corporations that meet standards contained in State statute are eligible to apply for membership.

Financial Management

The 2005 Financial Report reflects MMRMA's twenty-fifth year of operation. The report has been prepared by Quenneville & Associates, P.L.L.C., (Q & A), the accounting firm responsible for performing all MMRMA accounting and treasury functions. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and necessarily include amounts based upon reliable estimates and judgments. MMRMA books are recorded on a full accrual basis also in accordance with accounting principle generally accepted in the United States of America. A summary of significant accounting policies is discussed in the notes to the financial statements found in the financial section.

Q & A accounts for the MMRMA's General Fund and the Member Retention Fund. In fulfilling their responsibilities, Q & A has developed a reliable system of internal controls. This system is designed to provide reasonable assurance that assets are effectively safeguarded and that transactions are executed and properly recorded with appropriate authorizations.

Plante & Moran, PLLC (PM), independent public accountants, provide an objective, independent audit of MMRMA's financial position and results of operations. PM's examination is conducted in accordance with auditing standards generally accepted in the United States. Those standards require that PM plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The audit report is submitted to the Audit Committee and the Board of Directors.

Board of Directors

October 28, 2005

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In addition, Tillinghast, a Towers Perrin Company, conducts independent actuarial analyses to confirm the adequacy and reasonableness of the liabilities recorded as outstanding claim reserves. Their report is also submitted to the Board of Directors.

The Comprehensive Annual Report

Part I: Introductory Section

Contains information regarding MMRMA's management structure, executive officers, and the financial reporting requirements set forth in Board directives. This information provides the basis for understanding the Comprehensive Annual Financial Report.

Part II: Financial Statements

Includes all financial statements prepared from MMRMA's books and records for the twenty-fifth year of operation, including Management's Discussion and Analysis of performance for the fiscal year ended June 30, 2005, which is incorporated by reference in this section. The Financial Section has been examined by MMRMA's independent public accountants, Plante & Moran, PLLC., as required by the Board of Directors. A copy of PM's report dated October 5, 2005 is included in the Financial Section.

Part III: Supporting Financial Data

Contains certain data pertaining to claim reserves, investments, and administrative expenses that further support the data presented in the Financial Section. This data is of general interest to the Members and is used for future decision making. Unless otherwise indicated, the data in this section relates only to the risk retained by MMRMA.

Part IV: Statistical Data

Contains certain data pertaining to cumulative claim activity, loss development, comparative financial information, and demographic data. Unless otherwise indicated, the data in this section relates only to the risk retained by MMRMA. The independent actuarial report prepared by Tillinghast is incorporated by reference in this report.

Reinsurance Fund Coverages

MMRMA started carrying risk on July 1, 1985, at which time it began to participate in both the property and liability reinsurance treaties. Schedules of the last ten years of coverages follow.

Board of Directors

October 28, 2005

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JULY 1, 1994 to JUNE 30, 1996

LIABILITY	RETAINED
Individual Claims: \$925,000 X \$75,000	100%
Individual Claims: \$1,000,000 X \$1,000,000	~
Individual Claims: \$3,000,000 X \$2,000,000	~
Individual Claims: \$5,000,000 X \$5,000,000	~
PROPERTY	
Individual Claims up to \$100,000 after 10% to Member	100%
AUTO PHYSICAL DAMAGE	100%

JULY 1, 1996 to JUNE 30, 1998

LIABILITY	RETAINED
Individual Claims: \$925,000 X \$75,000	100%
Individual Claims: \$1,000,000 X \$1,000,000	~
Individual Claims: \$3,000,000 X \$2,000,000	~
Individual Claims: \$5,000,000 X \$5,000,000	~
PROPERTY	
Individual Claims up to \$100,000 after 10% to Member	100%
Individual Claims: \$400,000 X \$100,000	100%
AUTO PHYSICAL DAMAGE	100%

Board of Directors

October 28, 2005

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JULY 1, 1998 to JUNE 30, 2002

LIABILITY	RETAINED
Individual Claims: \$925,000 X \$75,000	100%
Individual Claims: \$1,000,000 X \$1,000,000	~
Individual Claims: \$3,000,000 X \$2,000,000	~
Individual Claims: \$5,000,000 X \$5,000,000	~
Individual Claims: \$5,000,000 X \$10,000,000	~
PROPERTY	
Individual Claims up to \$100,000 after 10% to Member	100%
Individual Claims: \$400,000 X \$100,000	100%
AUTO PHYSICAL DAMAGE	100%

JULY 1, 2002 to MARCH 31, 2004

LIABILITY	RETAINED
Individual Claims: \$925,000 X \$75,000	100%
Individual Claims: \$4,000,000 X \$1,000,000	27.5%*
Individual Claims: \$5,000,000 X \$5,000,000	~
Individual Claims: \$5,000,000 X \$10,000,000	~
PROPERTY	
Individual Claims up to \$100,000 after 10% to Member	100%
Individual Claims: \$400,000 X \$100,000	100%
AUTO PHYSICAL DAMAGE	100%

*20% until March 31, 2003; 27.5% thereafter

Board of Directors

October 28, 2005

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APRIL 1, 2004 to MARCH 31, 2005

LIABILITY	RETAINED
Individual Claims: \$925,000 X \$75,000	100%
Individual Claims: \$4,000,000 X \$1,000,000	15%
Individual Claims: \$5,000,000 X \$5,000,000	~
Individual Claims: \$5,000,000 X \$10,000,000	~
PROPERTY	
Individual Claims up to \$100,000 after 10% to Member	100%
Individual Claims: \$400,000 X \$100,000	100%
AUTO PHYSICAL DAMAGE	100%

APRIL 1, 2005 to MARCH 31, 2006

LIABILITY	RETAINED
Individual Claims: \$925,000 X \$75,000	100%
Individual Claims: \$4,000,000 X \$1,000,000	100%*
Individual Claims: \$5,000,000 X \$5,000,000	~
Individual Claims: \$5,000,000 X \$10,000,000	~
PROPERTY	
Individual Claims up to \$100,000 after 10% to Member	100%
Individual Claims: \$400,000 X \$100,000	100%
AUTO PHYSICAL DAMAGE	100%

*MMRMA retains 100% of this layer until a \$4 million aggregate deductible is reached. Any additional losses become a liability of reinsurers.

The above percentages of risk retained do not include additional risk applicable to reinsurers who have commuted their losses or become insolvent.

Board of Directors
October 28, 2005
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MMRMA has entered into reinsurance agreements with commercial reinsurers providing for loss coverage in excess of the amounts to be retained by MMRMA and Individual Members. This MMRMA program provides up to \$15 million of occurrence-based liability coverage for each incident.

Under the MMRMA Property Program, each individual member is provided coverage on a replacement cost basis with a maximum available amount of \$50 million on any one structure, unless specifically scheduled for additional coverage.

The Auto Physical Damage Program provides up to \$1,500,000 per occurrence. MMRMA retains 100% of the limits of coverage above the member self-insured retentions.

In lieu of the \$5 million statutorily required excess aggregate policy, MMRMA has placed a \$5 million bond on deposit with the State of Michigan as allowed by statute.

Self-Insured Retention

MMRMA receives funds from its Members to cover the deductible and retention portions of their losses. An Individual Member's maximum retention on general liability and auto liability is between \$75,000 and \$1,000,000 per occurrence. The retention limits for property coverage are subject to a \$1,000 deductible with 10% of the next \$100,000 to be paid by the Member. The retention on auto physical damage coverage is \$15,000 per unit and \$30,000 per occurrence.

Cost Containment

MMRMA provides its Members with a host of services to control risk with the ultimate goal of containing costs. These services are provided by a team of five risk control consultants covering both peninsulas. Exposures to loss are identified and the risk control resources are provided to eliminate or reduce such exposures. This heavy emphasis on field work affords Members with personalized contact on a regular basis.

Board of Directors
October 28, 2005
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In addition, MMRMA provides regional training to control losses in various areas of municipal operations. A group of eight advisory committees are utilized in this area.

- Administrative
- Parks & Recreation
- DPW
- Law Enforcement
- U.P. Law Enforcement
- Court Security
- 911/Telecommunications
- Fire/EMT

These committees consist of Member employees holding job responsibilities related to the activities of the committee. Advisory committees meeting throughout the year to produce model policies and procedures and to facilitate training activities.

Concluding Comments

The overall financial condition of MMRMA is excellent after the twenty-fifth year of operation. MMRMA has been able to afford its Members significant cost savings, as well as providing superior coverages and services. Since its inception on January 1, 1980, MMRMA has become an indispensable alternative to commercial insurance for Michigan governmental entities.

Finally, the preparation of the Comprehensive Annual Financial Report was a collaborative effort on the part of many people at MMRMA. I expect no significant changes in the immediate future.

Respectfully submitted,

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY



Michael L. Rhyner
Executive Director

MLR/db

Michigan Municipal Risk Management Authority
Comprehensive Annual Financial Report - June 30, 2005

BOARD OF DIRECTORS

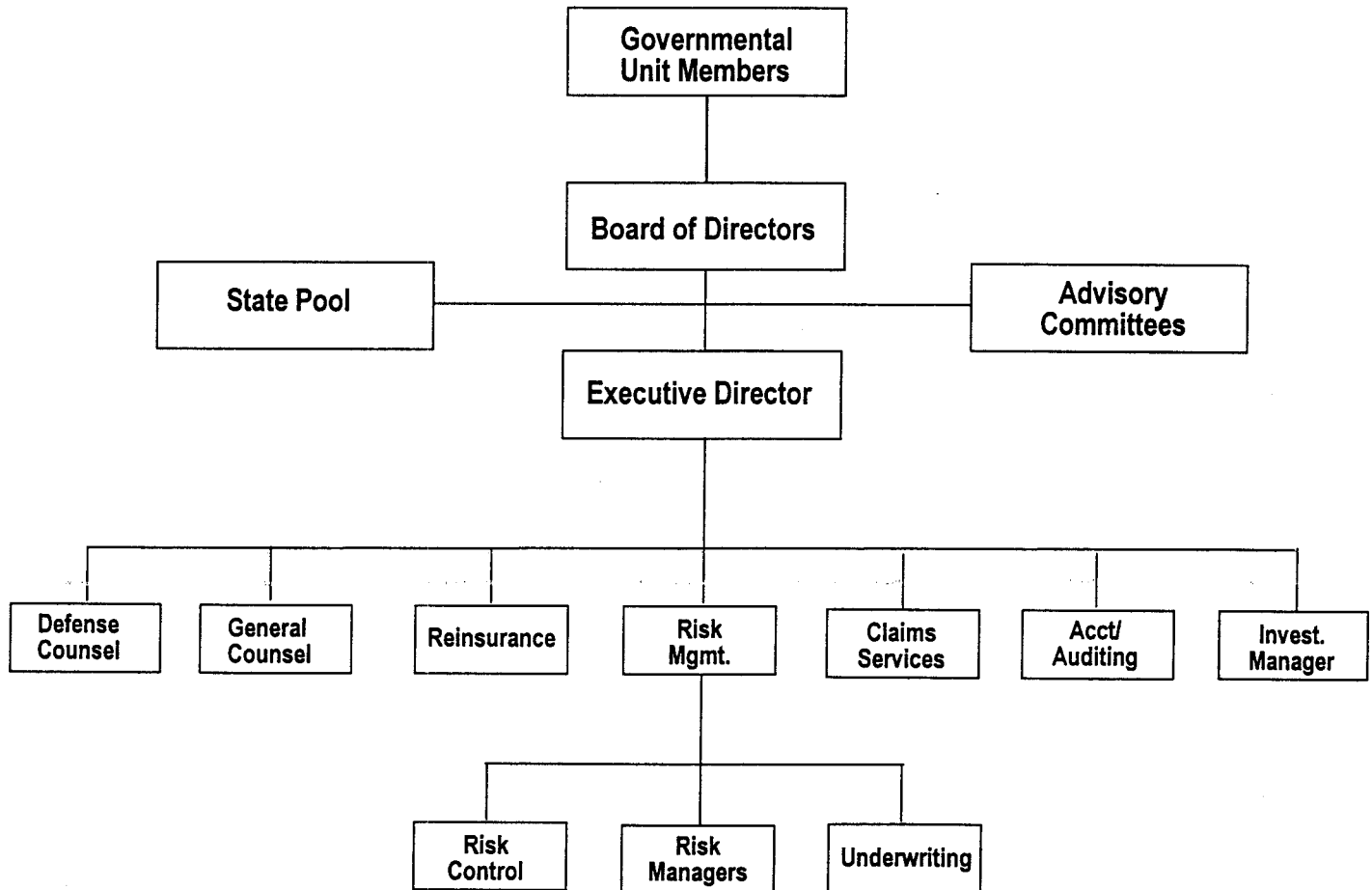
James Kohmescher, Chairman	<i>City of Wyoming</i>
James Scharret, Vice Chairman	<i>City of Southfield</i>
Michael Welsch, Secretary	<i>Iosco County</i>
Michael Bosanac	<i>Monroe County</i>
Richard Burke	<i>City of Ishpeming</i>
Michael Dornan	<i>City of Wixom</i>
Cindy King	<i>Charter Township of Van Buren</i>
Leonard Peters	<i>Eaton County</i>
Robert Seeterlin	<i>Charter Township of Waterford</i>
Thomas Yack	<i>Charter Township of Canton</i>

EXECUTIVE OFFICERS

Michael Rhyner, Executive Director
Michael Ellis, Director of Claims
Chuck Schwab, Director of Risk Management

Michigan Municipal Risk Management Authority
Comprehensive Annual Financial Report - June 30, 2005

ORGANIZATIONAL CHART
As of JUNE 30, 2005



Michigan Municipal Risk Management Authority
Comprehensive Annual Financial Report - June 30, 2005
MEMBERS as of JUNE 30, 2005

911 Midland County Central Dispatch	Cheboygan County Airport Authority
35th District Court - Plymouth	Cheboygan County Council on Aging
47th District Court - Farmington Hills	Chesaning-Brady Fire Dept.
Addison Township	Chestonia Township
Alba Fire Board	China, Charter Township of
Alger County	Chippewa County
Algonac, City of	Chippewa County EDC
Algonac Housing Commission	Chippewa River Library District
Allegan County	Clare County
Allegan County CMHS	Clawson, City of
Alma, City of	Clay Township
Ann Arbor Downtown Devel. Auth.	Clinton County
Antrim County	Copper Country Mental Health Services
Arenac County	Columbus Township
AuSable Valley CMHS	Davison, City of
Bangor, Charter Township of	Dearborn Heights, City of
Barry County	Delta County
Barry County CMH Authority	DeWitt Township
Barry-Eaton District Health Dept.	DeWitt Area Recreation Authority
Bay City, City of	Dexter, Village of
Bay County	Dickinson County
Bay-Arenac Behavioral Health	Dickinson County Library System
Belleville, City of	Dickinson County Solid Waste
Benzie County	Dickinson-Iron District Health Dept.
Benzie County Council on Aging	District Health Dept. #10, Hart
Benzie County Medical Care Facility	Dowagiac, City of
Benzie-Leelanau Dist. Health Dept.	Downriver Recreation Commission
Berrien County	E. Central Mich. Planning & Devel. Comm
Berrien County CMHS	Eastpointe, City of
Beverly Hills, Village of	Eaton County
Bingham Farms, Village of	Eaton County Medical Care Facility
Bloomfield, Charter Township of	Emmet County
Bloomfield Hills, City of	Emmett, Charter Township of
Brady Township	Escanaba, City of
Branch County	Escanaba Housing Commission
Branch-Hillsdale-St. Joseph CHA	Farmington, City of
Brandon Township	Farmington Hills, City of
CCE Central Dispatch Authority	Fenton, Charter Township of
CMH for Central Michigan	Ferndale, City of
Cablecasting Board - Bingham Farms	Fonda Island-Briggs Lake JWA
Calhoun County	Franklin, Village of
Calvin Township	Frenchtown Township Resort Dist. Authority
Canton, Charter Township of	Garden City, City of
Caro, Village of	Genesee County 911 Consortium
Carson City, City of	Genoa Township
Cass County	Genoa-Osceola Water & Sewer Authority
Central Area Mich. Works! Consortium	Gladstone, City of
Central Michigan District Health Dept.	Gladwin County
Central Michigan Landfill Authority	Gogebic County
Central Wayne Co. Sanitation Authority	Gogebic Medical Care Facility
Cheboygan, City of	Gogebic CMHA
Cheboygan County	Grand Ledge, City of
Cheboygan Area Public Library	

MEMBERS as of JUNE 30, 2005

Grand Ledge District Library
Grand Rapids, City of
Grand Traverse County
Grand Traverse County DPW
Grand Valley Reg. Biosolids Auth.
Gratiot County
Green Oak Township
Grosse Pointe Shores, Village of
Hamburg Township
Hampton, Charter Township of
Hazel Park, City of
Highland, Charter Township of
Hiawatha Behavioral Health
Hillsdale County
Howell, City of
Howell Area Fire Authority
Howell Township Sanitary Sewer Dist.
Huntington Woods, City of
Huron, Charter Township of
Huron Behavioral Services
Huron County
Huron County Health Dept.
Independence Township
Ingham County
Intergovern. Cable Comm. Auth.
Interurban Transit Authority
Ionia County
Ionia County Central Dispatch
Ionia County CMHS
Iosco County
Iron County
Iron Mountain, City of
Iron Mountain-Kingsford Sewage
Ironwood, City of
Isabella County
Isabella County MCF
Isabella County Transport. Comm.
Ishpeming, City of
Jackson County
Jackson County MCF
Kalamazoo, City of
Kalamazoo County
Kalamazoo County CMHS
Kalkaska County
Keego Harbor, City of
Kent County
Kimball Township
LMAS District Health Dept.
Lake Angelus, City of
Lake County
Lansing-Ingham Joint Building Auth.
Lapeer County
Lapeer District Library
Leelanau County
Lenawee CMHA
Lilley Township

Livingston County
Livingston County CMHS
Livingston Community Water Auth.
Livonia, City of
Luce County
Ludington, City of
Mackinac County
Madison Heights, City of
Manistee County
Manistee County Central Dispatch
Manistee County Transportation
Manistee-Benzie CMHS
Manton, City of
Marquette County
Marquette County EDC
Marquette Board of Light & Power
Marquette County Solid Waste Landfill
Marquette Housing Commission
Mason, City of
Mason County
Mason/Oceana Central Dispatch
Mecosta County
Meceola Consolidated Central Dispatch
Menominee County
MHOG Water & Sewer Authority
Midland County
Mid-Michigan District Health Dept.
Mid-Mich Area Cable Comm. Consortium
Monroe County
Monroe Community Mental Health Auth.
Montcalm Center For Behavioral Health
Montmorency County
Montmorency County Public Libraries
Montmorency-Oscoda-Alpena Landfill
Mount Clemens, City of
Mt. Pleasant, City of
Municipal Employee Retirement System
Muskegon, City of
Muskegon County
Nankin Transit Commission
Negaunee, City of
New Buffalo, City of
Newaygo County
Newaygo County Medical Care Facility
Newaygo County Mental Health
Newberry, Village of
Noble Township
North Country CMHS
Northeast Michigan CMHS
Northern Lakes CMHS
Northpoint Behavioral Healthcare
Northville, City of
Northville, Charter Township of
Northville District Library
Northwest Michigan CMHS
Oakland County CMHS
Oakland County Transportation

MEMBERS as of JUNE 30, 2005

Oakley, Village of	South Haven, City of
Oceana County	South Oakland County Water Authority
Oceana County MCF	South Lyon Housing Commission
Older Persons Commission	South Lyon Recreation
Ontonagon, Village of	Southern Clinton Municipal Utilities Auth.
Orchard Lake Village, City of	Southfield, City of
Orion Township	Southgate, City of
Osceola County	SW Michigan Commission
Otsego County	SW Oakland Cable Commission
Owosso, City of	Springfield, City of
Oxford, Village of	St. Clair County
Paint Creek Trailways Comm	St. Clair County CMHS
Parchment, City of	St. Clair Shores, City of
Pathways	St. Ignace, City of
Paw Paw, Village of	St. Joseph, City of
Pere Marquette Township	St. Joseph County
Pere Marquette District Library	St. Joseph County EDC
Pinconning, City of	Summit Pointe
Pleasant Ridge, City of	Summit Township
Plymouth, Charter Township of	Sylvan Lake, City of
Plymouth Housing Commission	Troy, City of
Polly Ann Trailway Management Council	Tuscola County
Pontiac, City of	Tyrone Lake Sanitary Sewer
Port Huron, City of	Upper Peninsula Public Power Agency
Portage, City of	Valley Township
Portage District Library	Van Buren, Charter Township of
Public Health, Delta Menominee Counties	Van Buren County CMHS
Redford, Charter Township of	Washington Township
Redford Township Library	Washtenaw Community Health Org.
River Rouge, City of	Waterford, Charter Township of
Riverview, City of	Wayne, City of
Rochester Hills, City of	West Bloomfield, Charter Township of
Roscommon County	West Bloomfield Parks & Rec. Comm.
Roscommon Transportation Authority	West Bloomfield Township Library
Royal Oak, City of	West Michigan Shoreline Reg. Dev. Comm.
Royal Oak Township	West Michigan CMHS
Saginaw County 911	Western Mason County Fire Dist.
Saginaw, Charter Township of	Western Townships Utilities Auth.
Sandusky, City of	Western UP District Health Dept.
Sandusky Comm. Fire Dept. Assn.	Westland, City of
Sanilac County	Wexford County
Sanilac County CMHS	White Lake Township
Sanilac Medical Control Auth	White Lake Fire Authority
Sauble Township	White Lake Community Library
Saugatuck Douglas District Library	White Pigeon Sanitary Sys.
Saugatuck Township Fire District	Whitehall, City of
Schoolcraft County	Wixom, City of
Scottville, City of	Wyoming, City of
Shiawassee County	
Shiawassee County CMHS	
Shiawassee County MCF	
Shiawassee District. Library	
Southeast Mich. Council of Gov'ts. (SEMCOG)	
SE Livingston County Recreation Auth.	
SE Oakland County Resource Recovery Auth.	

MEMBERS as of JUNE 30, 2005

COLLEGES

Alpena Community College
Bay De Noc Community College
Delta College
Glen Oaks Community College
Henry Ford Community College
Kalamazoo Valley Community College
Lake Michigan College
Macomb Community College
Mid Michigan Community College
Monroe County Community College
Montcalm Community College
Muskegon Community College
North Central Michigan College
Northwestern Michigan College
Oakland Community College
Schoolcraft Community College
Southwestern Michigan College
St. Clair County Community College
Wayne County Community College
West Shore Community College

Michigan Municipal Risk Management Authority

**Financial Report
with Supplemental Information
June 30, 2005**

Michigan Municipal Risk Management Authority

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Independent Auditor's Report

To the Board of Directors
Michigan Municipal Risk Management Authority

We have audited the accompanying statement of net assets of Michigan Municipal Risk Management Authority (a municipal joint venture) (the "Authority") as of June 30, 2005 and the related statements of revenue, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Michigan Municipal Risk Management Authority as of June 30, 2004 were audited by other auditors whose report dated October 12, 2004 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Michigan Municipal Risk Management Authority at June 30, 2005 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

As discussed in Note 7, the Authority restated its net assets as of July 1, 2003 and certain expenses in 2004 to correctly record unallocated loss adjustment expenses related to prior years.

To the Board of Directors
Michigan Municipal Risk Management Authority

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Michigan Municipal Risk Management Authority's basic financial statements. The accompanying required supplemental information and other supplemental information, as identified in the table of contents, are not a required part of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board; the other supplemental information is presented for the purpose of additional analysis. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental and other supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

October 5, 2005

Michigan Municipal Risk Management Authority

Management's Discussion and Analysis (Continued)

This section of the Michigan Municipal Risk Management Authority's (the "Authority") annual financial report presents our discussion and analysis of the Authority's financial performance during the year ended June 30, 2005. Please read it in conjunction with the Authority's financial statements, which immediately follow this section.

Using this Annual Report

The Authority is a public entity self-insurance pool that provides property and liability coverages to its participating members. Membership is limited to municipal corporations as defined by Michigan statute.

The Authority is financed by contributions from its member municipal corporations and these contributions are based upon underwriting criteria and guidelines approved by the board of directors. The Authority has three categories of membership: Individual members - individual municipal corporations, each maintaining a separate self-insured retention; pool members - an association of risk-sharing members; and affiliated members - other Public Act 138 organizations that contract with the Authority for certain coverages and services. The only current affiliated member is the Michigan Community College Risk Management Authority, which contracts with the Authority for reinsurance, claims adjusting, and underwriting services.

Individual members each maintain a minimum amount of funds, in an amount established by the executive director, on deposit with the Authority. The pool, acting as a single member, also maintains funds on deposit with the Authority. Members' funds on deposit are accounted for on the cash basis in the Members' Retention Fund and are used primarily to pay claims and related loss adjustment expenses that are obligations of the members.

Financial Overview

This annual statement consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required and other supplemental information.

The Authority's activity is maintained in one fund. The basic financial statements, which follow this section, provide both long-term and short-term information about the Authority's financial status. These basic financial statements report information about the Authority using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. These statements reflect only the risk carried by the Authority, which also includes any potential unrecoverable reinsurance claims.

Michigan Municipal Risk Management Authority

Management's Discussion and Analysis (Continued)

The three basic financial statements presented are as follows:

- **Statement of Net Assets** - This statement presents information reflecting the Authority's assets, liabilities, and net assets and is categorized into current and noncurrent assets and liabilities. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within 12 months of the statement's date.
- **Statement of Revenues, Expenses, and Changes in Net Assets** - This statement reflects the operating and nonoperating revenue and expenses for the previous two fiscal years. Operating revenue primarily consist of member contributions with the major sources of operating expenses being claims and claims adjustment expenses, general and administrative expenses, and reinsurance costs. Nonoperating revenue consists primarily of investment income.
- **Statement of Cash Flows** - This statement is presented on the direct method of reporting and reflects cash flows from operating activities and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash equivalents for the fiscal year.

Michigan Municipal Risk Management Authority

Management's Discussion and Analysis (Continued)

Condensed Financial Information

The statements report the Authority's net assets and how they have changed. Net assets - the difference between the Authority's assets and liabilities - is one way to measure the Authority's financial health or position. Over time, increases and decreases in the Authority's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. Summarized financial information is as follows:

	June 30	
	2005	2004
Total Assets		
Current assets	\$ 241,595,493	\$ 211,239,601
Noncurrent assets	6,462,264	6,657,522
Total assets	248,057,757	217,897,123
Total Liabilities		
Total current liabilities	66,753,207	62,560,383
Total noncurrent liabilities	51,173,014	50,701,603
Total liabilities	117,926,221	113,261,986
Net Assets		
Invested in capital assets	394,357	512,664
Net unrestricted assets	129,737,179	104,122,473
Total net assets	\$ 130,131,536	\$ 104,635,137
Revenue		
Member contributions - Net	\$ 36,165,651	\$ 34,211,994
Electric choice program revenue	6,059,572	5,654,505
Loss contributions from associated programs	1,112,711	1,192,629
Total revenue	43,337,934	41,059,128
Expenses		
Total risk management, underwriting, and other expenses	15,950,094	14,590,068
Total claims and related expenses	16,379,886	18,137,746
Total expenses	32,329,980	32,727,814
Operating Income	11,007,954	8,331,314
Nonoperating Revenue - Net investment income	14,488,445	19,865,845
Increase in Net Assets	\$ 25,496,399	\$ 28,197,159

In addition to net assets, when assessing the overall health of the Authority, the reader needs to consider other nonfinancial factors such as the legal climate in the State of Michigan, the general state of the financial markets, and the level of risk prevention undertaken by the Authority and its members.

Michigan Municipal Risk Management Authority

Management's Discussion and Analysis (Continued)

The Authority cannot control the first two factors. However, since its inception, the Authority has been a leader in implementing aggressive risk prevention programs. It provides extensive training to its members in various areas of municipal operations. It makes use of several advisory committees comprised of member employees holding job responsibilities related to the activities of the committees. The advisory committees meet throughout the year to produce model policies and procedures and facilitate training in the areas of building and court security, law enforcement, parks, and recreation, fire/EMS, telecommunications, employment, and public works.

Condensed Comparative Financial Highlights

- Overall, the Authority's net assets increased by \$25.5 million (24.4 percent) from \$104.6 million to \$130.1 million.
- Total revenue increased by \$2.2 million (5.6 percent) from \$41.1 million to \$43.3 million.
- Risk management, underwriting, and other administrative expenses increased by approximately \$1.0 million (10.4 percent) from \$9.1 million to \$10.1 million.
- Net contributions used to fund risk carried by the Authority increased by approximately \$900,000 (3.4 percent) from \$26.5 million to \$27.4 million.
- Claim payments decreased by \$1.4 million (10.3 percent) from \$13.8 million to \$12.4 million.
- Ceded reinsurance costs decreased by \$477,000 (3.4 percent) from \$14.1 million to \$13.6 million.
- Reserves (reported net of estimated reinsurance recoveries), which includes reported and incurred but not reported and unallocated loss adjustment expense, increased by approximately \$4.0 million (5 percent) from \$80.1 million to \$84.1 million.
- Investment income of \$14.5 million was earned this year compared to \$19.9 million in the prior year.

Cash and Cash Equivalents

Cash and cash equivalents comprise the most significant numbers in the asset section of the Authority's statement of net assets.

Michigan Municipal Risk Management Authority

Management's Discussion and Analysis (Continued)

Accordingly, the board of directors has established an investment policy with an overall objective of moderate growth of assets consistent with lower fluctuations of market values and protection against erosion of purchasing power caused by inflation. Each investment transaction shall seek to insure that capital losses are minimized, whether caused by security defaults or decline in market value. The goal of the Authority is to attain, on the total portfolio, an above-market average rate of return throughout economic cycles, taking into account the Authority's investment risk constraints. The asset allocation plan and target is 25 percent to 60 percent invested in U.S. equities, 35 percent to 75 percent invested in fixed income, and five percent to 20 percent invested in cash and equivalents.

Investment guidelines for U.S. equities provide for investing in a broadly diversified portfolio of publicly held stocks, listed on U.S. stock exchanges. The manager may not invest in more than five percent of the outstanding securities of one issuer nor invest more than five percent of the portfolio in the outstanding securities of one issuer.

Investment guidelines for fixed income portfolios consist primarily of diversified U.S. dollar-denominated debt securities issued by the U.S. government and its agencies and instrumentalities, other U.S.-domiciled issuers, and foreign issuers. Up to 35 percent of the portfolio may be invested (in the aggregate) in issues of mortgage pass-through securities, collateralized mortgage obligations, commercial mortgage-backed securities, and asset-backed securities. Investment managers may not invest in more than five percent of the outstanding securities of one issue nor invest more than five percent of the portfolio's assets in the securities of one issuer, except for securities issued by the U.S. Government and its agencies and instrumentalities or foreign sovereign issuers (as permitted by the investment guidelines).

The portfolio's debt securities must have a minimum quality rating of B by Standards & Poor's (S&P) or B2 by Moody's, or above, while the overall portfolio should have an average minimum quality rating of A or its equivalent as determined in good faith by the investment managers. The investment managers may allocate up to 20 percent of the total fixed income portfolio to issues with a credit rating below BBB- by S&P or Baa3 by Moody's (the high yield segment) with no more than 0.5 percent of the entire fixed income portfolio in any one issuer of high yield segment securities. The investment managers may allocate up to 10 percent of the fixed income portfolio to issues denominated in currencies other than the U.S. dollar. The investment managers shall be permitted to enter into currency-forward contracts in order to hedge the portfolio's exposure to foreign currency.

The portfolio is expected to be fully invested at all times. However, the manager may raise cash if they deem it appropriate.

Investment guidelines for cash and cash equivalent portfolios are to follow the American Banking Association investment standards for security-type, quality, and maturity for short-term investment funds (STIF), with money market funds exempted.

Currently, all investments of the Authority are professionally managed in both passive index and active funds and held in trust by Comerica Bank.

Michigan Municipal Risk Management Authority

Management's Discussion and Analysis (Continued)

A \$5 million bond is held in escrow by the State of Michigan in lieu of an excess aggregate policy as required by statute.

Reserves for Unpaid Claims

The Authority's most significant numbers in the liability section of the statement of net assets are the reserves for reported and incurred but not reported claims and claim adjustment expenses. In addition, the reserves for the year ended June 30, 2004 were restated to add a reserve for unallocated loss adjustment expense (ULAE) in the amount of \$6,109,538. Tillinghast, a Towers Perrin Company, conducts an independent actuarial analysis to determine the adequacy and reasonableness of such reserves.

Budgetary Highlights

The budget for the year ended June 30, 2005, was approved by the board of directors during their June 2004 meeting. There were no subsequent changes made to that budget.

	Budgeted	Actual	Variance Positive (Negative)
Revenues:			
Members	\$ 45,436,000	\$ 49,938,214	\$ 4,502,214
Affiliate	1,072,687	1,112,711	40,024
Investment income	8,000,000	14,488,445	6,488,445
Total revenues	54,508,687	65,539,370	11,030,683
Expenditures:			
Membership services	15,783,000	14,113,770	1,669,230
Administration	1,978,172	2,353,132	(374,960)
Claims services	1,748,877	1,586,140	162,737
Risk management	5,171,027	5,116,314	54,713
Information	807,206	493,730	313,476
Total expenditures	25,488,282	23,663,086	1,825,196
Claims paid	18,000,000	12,400,970	5,599,030
Excess revenue	\$ 11,020,405	29,475,314	\$ 18,454,909
Increase in reserves**		(3,978,915)	
Excess of revenues over expenses		\$ 25,496,399	

** Not a budgeted item

Total resources actually received by the Authority exceeded budgeted amounts by \$11.0 million or 20.2 percent. Member and affiliate contributions were \$4.5 million over budget (9.9 percent) and the Authority experienced a \$14.5 million investment gain rather than the \$8.0 million that was budgeted, resulting in the overall increase.

Michigan Municipal Risk Management Authority

Management's Discussion and Analysis (Continued)

Membership services expenditures were under the budgeted amount by \$1,669,000 or 10.6 percent. This was primarily due to lower actual reinsurance costs, which were not determined until after the budget was approved.

Administrative services were over budget by \$375,000 or 19.0 percent, primarily due to higher fees charged by investment fund managers. In the fixed income investment portfolio, a change was made from passive to actively managed funds in June 2004, and the fees increased accordingly.

Claims services were under budget by \$163,000 or 9.3 percent, primarily due to certain personnel positions not being filled for the entire year, as well as lower than expected expenditures for contracted services.

Risk management expenses were below budget by \$55,000 or 1.1 percent, primarily due to less being paid to outside Regional Risk Management since certain members are now serviced by in-house staff.

Information service expenses were under the budget by \$313,000 or 38.8 percent primarily due to the postponement of a system design project to next fiscal year.

Claims and legal expenses paid during the year were \$5.6 million or 31.1 percent under budget. The actual payment of claims depends on many factors and varies from year to year.

In total, the Authority had budgeted net revenue over expense amount of \$11.0 million. However, due to higher than budgeted investment income, lower than budgeted reinsurance costs, and a decrease in claims paid, partially offset by an increase in the actuarially determined incurred but not reported (IBNR) reserves, it experienced a \$25.5 million increase in net assets for the year.

Capital Assets

The Authority owns its office building located in Livonia, Michigan. It was built at a cost of \$1.8 million and is being depreciated on a straight-line basis over 15 years. The State of Michigan requires that furniture and equipment be expensed when purchased. Computer equipment may be capitalized, however, any computer equipment would essentially be fully depreciated or would fall below the Authority's capitalization policy. Therefore, no furniture, general equipment or computer equipment is shown on the statements of net assets.

Economic Factors and Next Year's Budget

The reinsurance industry must respond to the catastrophic hurricane losses of 2005, as well as to continuing uncertain investment market conditions. In this uncertain climate, the Authority plans to hold sufficient net assets to act as a contingency for uncollectible reinsurance. Net assets will also provide protection from reserve deficiencies, investment volatility, and new, unexpected or catastrophic claims.

Michigan Municipal Risk Management Authority

Management's Discussion and Analysis (Continued)

Contacting the Authority's Management

This financial report is designed to provide our members, customers, and the general public with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional information, contact the Authority office at 14001 Merriman Road, Livonia, Michigan 48154. The telephone number is 734-513-0300.

Michigan Municipal Risk Management Authority

Statement of Net Assets

	June 30	
	2005	2004
Assets		
Current assets:		
Cash and cash equivalents (Note 5)	\$ 23,773,456	\$ 31,443,219
Member contributions receivable	7,513,496	4,862,076
Reinsurance recoverable	9,481,121	2,473,752
Fixed maturities at fair value (Note 5)	80,402,917	45,274,934
Equity securities at fair value (Note 5)	118,337,532	125,629,271
Prepaid expenses and other current assets	2,086,971	1,556,349
Total current asset	241,595,493	211,239,601
Noncurrent assets:		
Restricted investment (Notes 1 and 5)	5,000,000	5,000,000
Investments	1,067,907	1,144,858
Office building - Net of accumulated depreciation (Note 1)	394,357	512,664
Total assets	248,057,757	217,897,123
Liabilities		
Current liabilities:		
Reserve for claims and claim adjustment expenses reported (Note 3)	8,114,982	6,546,205
Reserve for claims and claim adjustment expenses incurred but not reported (Note 3)	24,836,636	22,897,908
Reinsurance premiums and casualty treaty adjustments payable	145,531	283,189
Accrued expenses	1,652,613	1,354,853
Pending trades	2,425,739	6,054,825
Unearned contributions	13,380,165	11,232,169
Member funds held on deposit (Note 2)	16,197,541	14,191,234
Total current liabilities	66,753,207	62,560,383
Noncurrent Liabilities:		
Reserve for claims and claim adjustment expenses reported - Net of current portion (Note 3)	12,602,358	11,272,379
Reserve for claims and claim adjustment expenses incurred but not reported - Net of current portion (Note 3)	38,570,656	39,429,224
Total noncurrent liabilities	51,173,014	50,701,603
Total liabilities	117,926,221	113,261,986
Net Assets		
Invested in capital assets	394,357	512,664
Net unrestricted assets - As restated (Note 7)	129,737,179	104,122,473
Total net assets	\$ 130,131,536	\$ 104,635,137

Michigan Municipal Risk Management Authority

Statement of Revenue, Expenses, and Changes in Net Assets

	Years Ended June 30	
	2005	2004
Operating Revenue		
Member contributions - Gross of reinsurance	\$ 49,758,286	\$ 48,281,979
Member contributions - Ceded	(13,592,635)	(14,069,985)
Member contributions - Net	36,165,651	34,211,994
Electric Choice program revenue	6,059,572	5,654,505
Loss contributions from associated programs	1,112,711	1,192,629
Total revenue	43,337,934	41,059,128
Operating Expenses - Risk management, underwriting, and other expenses		
Risk management expenses	3,232,824	3,127,051
Executive office, underwriting, claims, and other expenses	6,837,626	5,994,089
Electric Choice program expenses	5,879,644	5,468,928
Total risk management, underwriting, and other expenses	15,950,094	14,590,068
Net contributions available for claims and related expenses	27,387,840	26,469,060
Claims and Related Expenses		
Claims and claim adjustment expenses paid - Gross of subrogation and reinsurance recoveries	26,062,941	17,461,184
Reinsurance recoveries on claims and claims adjustment expenses	(13,661,971)	(3,630,702)
Change in net reserve for claims and claim adjustment expenses	2,898,756	1,314,570
Change in net reserve for claims and claim adjustment expenses incurred but not reported	1,080,160	2,992,694
Total claims and related expenses	16,379,886	18,137,746
Operating Income	11,007,954	8,331,314
Nonoperating Income (Expenses)		
Net increase in fair value of investments	1,707,584	11,540,467
Investment income	13,542,068	9,122,156
Interest expense on member funds held on deposit	(761,207)	(796,778)
Net nonoperating income	14,488,445	19,865,845
Increase in Net Assets	25,496,399	28,197,159
Net Assets - Beginning of year - As restated (Note 7)	104,635,137	76,437,978
Net Assets - End of year	\$ 130,131,536	\$ 104,635,137

Michigan Municipal Risk Management Authority

Statement of Cash Flows

	Years Ended June 30	
	2005	2004
Cash Flows from Operating Activities		
Cash received from members	\$ 49,009,885	\$ 48,531,252
Member fund deposits received	15,761,241	16,453,688
Cash payments to suppliers for goods and services	(21,631,065)	(16,069,891)
Electric Choice program revenue received	6,304,549	5,418,179
Electric Choice program expenses paid	(5,791,506)	(5,266,860)
Loss contributions from associated programs	1,112,711	1,192,629
Risk management and accounting expenses paid	(3,005,662)	(3,786,020)
Executive office, underwriting, claims, and other expenses paid	(7,317,335)	(5,120,974)
Interest paid on member funds held on deposit	(761,207)	(796,778)
Member fund claims and related payments	(15,320,674)	(15,279,723)
Claims and claims adjustment expenses paid	(12,400,969)	(13,830,482)
Net cash provided by operating activities	5,959,968	11,445,020
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	167,256,569	176,053,707
Purchases of investments	(193,666,981)	(186,899,187)
Investment income received	12,780,681	9,387,892
Net cash used in investing activities	(13,629,731)	(1,457,588)
Net Increase (Decrease) in Cash and Cash Equivalents	(7,669,763)	9,987,432
Cash and Cash Equivalents - Beginning of year	<u>31,443,219</u>	<u>21,455,787</u>
Cash and Cash Equivalents - End of year	<u>\$ 23,773,456</u>	<u>\$ 31,443,219</u>

Michigan Municipal Risk Management Authority

Statement of Cash Flows (Continued)

Reconciliation of Operating Income to Net Cash from Operating Activities

Operating income	\$ 11,007,954	\$ 8,331,314
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	118,308	118,308
Changes in assets and liabilities:		
Member contributions receivable	(2,651,420)	562,768
Reinsurance receivables	(7,007,369)	(309,419)
Prepaid expenses and other	(1,794,519)	444,607
Reserves for claims and claim adjustments expenses	3,978,916	3,722,476
Reinsurance premiums and casualty treaty adjustments payable	(137,658)	(2,887,399)
Accrued expenses	297,760	1,775,859
Unearned contributions	<u>2,147,996</u>	<u>(313,494)</u>
Net cash provided by operating activities	<u>\$ 5,959,968</u>	<u>\$ 11,445,020</u>

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2005 and 2004

Note 1 - Nature of Entity and Significant Accounting Policies

The Michigan Municipal Risk Management Authority (the "Authority") was established in January 1980 pursuant to the laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege, or authority which each might exercise separately. The purpose of the Authority is to provide cooperative and comprehensive risk financing and risk control services for general and auto liability, motor vehicle physical damage, and property; purchase or otherwise provide for reinsurance or excess insurance or make other provisions for payment of losses and related expenses in excess of risk retained by the Authority; and provide claims, legal defense, and related general administrative services to members. In 2004, the Authority also insured several community mental health associations against spending in excess of their budget through the Authority's Risk Avoidance Program, which was established in October 1998. This program was terminated in 2004. During 2001, the Authority established an Electric Choice Program, under which eligible Michigan local communities can purchase electric energy wholesale for their own use. On behalf of the communities, the Authority negotiates and enters into contracts to purchase electric energy for municipal purposes.

Any member may withdraw from the Authority at the end of any anniversary year by giving at least 90 days notice in writing of its desire to withdraw. Any member withdrawing from the Authority while having a positive balance in its funds held on deposit may withdraw such funds less projected allocated claims expenses. Any member withdrawing from the Authority having a negative balance in its funds held on deposit account shall repay the Authority such negative balance and claims expenses incurred. At the request of the withdrawing member, the Authority shall continue to service any pending claim and the member shall reimburse the Authority for claims expenses incurred. Coverage in excess of the Members' retention shall not be afforded withdrawing members for claims not serviced by the Authority.

Pursuant to the Michigan Code, the Authority submits a detailed budgetary schedule of the administrative expenses to the state prior to the beginning of each fiscal year. The fundamental purpose of budgetary control is to plan for the expected level of operations and to provide management with a tool to control deviation from such plan.

The accompanying financial statements are presented using the accrual method of accounting in conformity with accounting principles generally accepted in the United States of America.

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2005 and 2004

Note 1 - Nature of Entity and Significant Accounting Policies (Continued)

In September 1993, the Governmental Accounting Standards Board (GASB) issued Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The Authority has elected to adopt statements or interpretations of the Financial Accounting Standards Board (FASB) that are issued after November 30, 1989 unless the GASB specifically adopts pronouncements that conflict with or contradict such FASB statements or interpretations.

The Authority distinguishes operating revenue and expenses from nonoperating revenue and expenses. Operating revenue and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenue and expenses of the Authority relate to premium revenue and claims and administrative expenses. Premium contributions received covering future contract periods are deferred and recognized over the related contract periods. Net investment earnings are reported as nonoperating revenue.

Cash Equivalents - Cash and cash equivalents include cash and all liquid securities with maturities of 90 days or less when purchased.

Member contributions receivable and reinsurance receivable - Receivables from members are stated at net invoice amount, and receivables from reinsurers are computed based on the applicable treaty. Collectibility of balances are reviewed periodically. Any amounts deemed uncollectible are written off at that time. No allowance for bad debts has been recorded because management considers all member and reinsurance receivables to be collectible.

Investments - The Authority is invested primarily in fixed maturity securities and mutual fund shares which are stated at fair value as determined by quoted market prices. Investments in proprietary funds offered by Comerica Bank are valued at the quoted market value provided by the bank. All investment income, including changes in the fair value of investments, is recognized as revenue in the statements of revenue, expenses, and changes in net assets. The Authority has Euro forward-purchase contracts recorded at fair market value, which is \$44 at June 30, 2005.

Restricted Investment - The Authority has a \$5 million bond held in escrow by the State of Michigan in lieu of an excess aggregate policy as required by statute.

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2005 and 2004

Note 1 - Nature of Entity and Significant Accounting Policies (Continued)

Office Building - The office building is recorded at cost and is being depreciated on a straight-line basis over 15 years. The cost of the office building is \$1,774,609 at both June 30, 2005 and 2004. Accumulated depreciation at June 30, 2005 and 2004 is \$1,380,252 and \$1,261,944, respectively. Depreciation expense for 2005 and 2004 was \$118,308.

Unearned Contributions - Unearned contributions represent contributions invoiced during the year, which cover a period extending beyond the end of the fiscal year and, thus, remain unearned as of year end.

Reserves for Claims and Claim Adjustment Expenses - The Authority establishes claims liabilities based on estimates of the ultimate cost of claims, including future allocated and unallocated claims adjustment expenses, that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of subrogation and reinsurance recoveries are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in estimating claims liabilities does not necessarily result in an exact amount, particularly for coverage such as general liability. Claims liabilities are estimated periodically using a variety of actuarial and statistical techniques to produce current estimates that reflects recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expenses in the periods in which they are made. The Authority retains a qualified, independent actuarial firm to perform an annual actuarial review of the risk retained by the Authority. Premium deficiency is defined as the amount by which expected claims costs (including IBNR) and all expected claims adjustment expenses exceed related unearned premiums. The Authority has determined that a premium deficiency does not exist. In making this determination, management has taken into consideration anticipated investment income.

Member Contributions - Member contributions related to amounts to be expended for reinsurance coverage, claim payments in excess of individual members' self-insured retentions, and certain general and administrative expenses are recognized as revenue in the year to which they apply. Member loss contributions are determined in accordance with the terms of the Joint Exercise of Powers Agreement (JPA) and underwriting guidelines established by the Authority. The JPA is the primary governing document for the Authority.

Michigan Municipal Risk Management Authority

**Notes to Financial Statements
June 30, 2005 and 2004**

Note 1 - Nature of Entity and Significant Accounting Policies (Continued)

Member contributions related to claims costs that fall within the members' self-insured retention are reflected as member funds held on deposit. Member contributions for this are determined in accordance with the terms of the JPA. The executive director of the Authority may authorize distributions to individual members in the event that their funds held on deposit are determined to be sufficient to do so.

Federal Income Tax Status - The Authority is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. This law allows local governmental units to provide joint funding for risk management and self-insurance purposes and, as such, are not subject to federal income tax under Internal Revenue Code Section 115 of 1986.

Risk Management - The Authority is exposed to various risks of loss related to property loss, torts, errors, and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since inception.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates related to allowances for unsettled claims and claims incurred but not reported are described in Note 3.

Reclassification - Certain 2004 amounts have been reclassified to conform to the 2005 presentation.

Upcoming Accounting Change - The Authority will be required to adopt the provisions of GASB Statement No. 45 - *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions*, for its fiscal year beginning July 1, 2008. This pronouncement will require advance accrual of a portion of the costs of the Authority's retiree health program and expand disclosures regarding the benefit obligation. The effect of this accounting change has not yet been determined.

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2005 and 2004

Note 2 - Member Funds Held on Deposit

This account consists of those economic resources of the members held by the Authority used for obligations of the members including loss payments and defense costs up to the members' self-insured retention amounts. Member funds on deposit earn interest based on their share of the fixed income portfolio return. In addition, economic resources in this account are used to pay certain other legal and meeting expenses of the members. It has been included in the accompanying financial statements as liability for the amount received but not yet earned or expended on claims costs. The following is a summary of the change in member funds held on deposit during the years ended June 30:

	<u>2005</u>	<u>2004</u>
Member contributions	\$ 16,565,774	\$ 16,453,688
Claims and related costs:		
Member claims and claims adjustment costs paid - Net of subrogation receipts	12,575,923	13,366,402
General legal fees	194,628	152,239
State assessments and direct meeting costs	1,906,125	1,554,370
Funds distributed to members	<u>643,998</u>	<u>206,712</u>
Total claims and related costs	<u>15,320,674</u>	<u>15,279,723</u>
Excess of member contributions before interest over claims and related costs	1,245,100	1,173,965
Interest on member funds	<u>761,207</u>	<u>796,778</u>
Excess of member contributions and interest over claims and related costs	2,006,307	1,970,743
Member funds held on deposit - Beginning of year	<u>14,191,234</u>	<u>12,220,491</u>
Member funds held on deposit - End of year	<u>\$ 16,197,541</u>	<u>\$ 14,191,234</u>

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2005 and 2004

Note 3 - Allowances for Unsettled Claims and Claims Incurred but Not Reported

The following table represents changes in the unpaid claims for the Authority for the years ended June 30:

	2005	2004
Unpaid claims and claims adjustment expenses - Beginning of fiscal year	\$ 80,145,716	\$ 77,765,884
Incurred claims and claims adjustment expenses:		
Provision for insured events of the current fiscal year	31,715,164	27,541,988
Change in provision for insured events of prior fiscal years	(15,335,278)	(11,331,674)
Total incurred claims and claims adjustment expenses	16,379,886	16,210,314
Payments:		
Claims and claims adjustment expenses attributable to insured events of the current fiscal year	(1,641,060)	(1,352,545)
Claims and claims adjustment expenses attributable to insured events of prior fiscal years	(10,759,910)	(12,477,937)
Total payments	(12,400,970)	(13,830,482)
Unpaid claims and claims adjustment expenses - End of fiscal year	<u>\$ 84,124,632</u>	<u>\$ 80,145,716</u>

The provision for insured events of prior fiscal years decreased during 2005 and 2004 due to claims settling for amounts different from those originally estimated. The decrease was attributable to favorable claim settlements achieved through facilitation where several high profile claims were settled below the initial reserve estimates. The favorable reserve development that emerged in 2004 was primarily related to the 2000 through 2003 accident years. Included in the provision for insured events of prior fiscal years are expenses related to events that occurred in previous years, but it does not require refunds of premiums to members.

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2005 and 2004

Note 4 - Loss Coverage

Loss coverage for general and auto liability and property is structured on a three layer basis with each member retaining a portion of its losses. The layers are divided into three levels of risk retention whereby the members, the Authority, and the reinsurance carriers share the risk. Loss coverage for auto physical damage is shared between the members and the Authority.

Member Retention Level - A member's self-insured retention varies depending on the type of claim and the agreement entered into with the Authority. The table below displays the amount of risk retained by the member for general and auto liability, property, and auto physical damage.

Authority Retained Risk Program - This program consists of those economic resources of the Authority which have been restricted to pay losses incurred by members which exceed the members' (self insurance retention layer) SIR and are not covered under existing reinsurance agreements. During 2005 and 2004, the Authority agreed to retain certain levels of risk, rather than obtaining coverage through reinsurance agreements. The table below presents a summary of the amount of risk retained by the Authority for general and auto liability, property, and auto physical damage.

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2005 and 2004

Note 4 - Loss Coverage (Continued)

Reinsurance Agreements - The Authority has entered into reinsurance agreements providing for loss coverage in excess of the amounts to be retained by the Authority or the members. The table below displays the amount of risk retained by the reinsurer for general and auto liability, property, and auto physical damage.

Policy	Member SIR	Authority Coverage	Reinsurance
General and Auto Liability	\$50,000 to \$75,000 (1) per occurrence	Individual claims between members' SIR and \$1,000,000 and 15 percent of the next \$4,000,000 (2)	Individual claims in excess of the Authority's coverage up to \$15 million per occurrence (3) Individual claims resulting from terrorism in excess of the Authority's coverage up to \$4 million over the life of the treaty
Property	\$1,000 deductible plus 10 percent up to \$100,000 per occurrence (6)	90 percent of the first \$100,000 after the deductible, plus 100 percent of the next \$400,000 per occurrence	Individual claims in excess of the Authority's coverage up to the predetermined maximum limits for each member (4) Individual claims resulting from terrorism in excess of the Authority's coverage up to \$25 million over the life of the treaty
Auto Physical Damage	\$15,000 per unit and \$30,000 (5) per occurrence	Individual claims up to \$1,500,000 after members' SIR	No reinsurance coverage

- (1) certain members have higher retention levels and/or deductibles
- (2) 27.5 percent until March 31, 2004 and 15 percent until March 31, 2005; for the treaty year April 1, 2005 to March 31, 2006, MMRMA retains 100 percent of this layer until a \$4 million aggregate is reached; any additional losses become the liability of the reinsurers
- (3) certain members have higher limits of liability per occurrence
- (4) limit based on value of property being insured
- (5) after a \$1,000 deductible
- (6) some members have higher deductibles

In the event a reinsurance company does not meet its obligation to the Authority, responsibility for payment of any unreimbursed claims will be paid by the Authority using funds contributed by members for this purpose.

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2005 and 2004

Note 4 - Loss Coverage (Continued)

The Authority has also retained some risk for an intergovernmental agency that is an affiliated entity but not a member of the organization. As such, a portion of the activity recorded relates to this organization. Contributions paid by this organization for the coverage levels are shown as loss contributions from associated programs. The Authority is responsible for payment of unreimbursed claims due to insolvent reinsurers for this organization.

Member Stop-loss Program - In addition to the member coverage described above, the Authority provides optional stop-loss coverage to members to limit the aggregate losses paid by one member in any one year. The Authority has entered into an agreement with participating members whereby total paid losses in any one fiscal year, net of reinsurance recoveries, which are in excess of a predetermined entry point will be paid by the stop-loss program. Allocations to the stop-loss program are based on a percent of contributions.

The following table summarizes the net impact of reinsurance arrangements on member contributions and claims and claims adjustment expenses paid:

	Years Ended June 30	
	2005	2004
Member contributions:		
Direct	\$ 49,758,286	\$ 48,281,979
Ceded	<u>(13,592,635)</u>	<u>(14,069,985)</u>
Total member contributions - Net	<u>\$ 36,165,651</u>	<u>\$ 34,211,994</u>
Claims and claim adjustment expenses paid	\$ 26,062,941	\$ 17,461,184
Reinsurance recoveries	<u>(13,661,971)</u>	<u>(3,630,702)</u>
Total claims and claim adjustment expenses paid	<u>\$ 12,400,970</u>	<u>\$ 13,830,482</u>

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2005 and 2004

Note 5 - Investments

The Authority's investment policy authorizes the Authority to make deposits in custodial banks that are appointed upon the recommendation of the executive director.

The Authority's investments are held in the Authority's name. The Authority has designated Comerica Bank for the deposit of its investments.

The overall asset mix of the fund, measured by market value, shall be as follows:

	<u>Maximum</u>	<u>Minimum</u>	<u>Target</u>
Equities	60%	25%	50%
Fixed income	75%	35%	40%
Cash equivalents	20%	5%	10%

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk of bank deposits. At year end, the Authority's deposit balance of \$2,493,221 had \$2,393,221 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority, with the assistance of the independent investment consultant, periodically evaluates the performance of the custodial bank and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy does not restrict investment maturities. The Authority's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and limiting the average maturity in accordance with the Authority's cash requirements.

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2005 and 2004

Note 5 - Investments (Continued)

At June 30, 2005, the Authority had the following investments:

Investment Type (Comerica Defined)	Market Value (including Accruals)	Weighted Average Maturity Date	Years
U.S. government	\$ 21,419,746	7/25/2010	5
U.S. government agencies and asset backed	8,021,308	11/6/2027	22
State and municipal	240,337	7/10/2018	13
Corporate	34,103,246	8/27/2010	5
Corporate asset backed	13,052,087	7/21/2026	21
Private placements	3,012,761	9/23/2014	9
Foreign government and agencies	1,808,757	6/25/2017	12
Foreign corporate	1,586,900	6/23/2009	4
Other debt securities	2,157,731	11/11/2031	26
Bank pooled funds	118,337,532	N/A	N/A
Euro/USD currency forward - Net	44	N/A	
Pending trades	(2,425,739)	N/A	
Total fair value	<u>\$ 201,314,710</u>		

Credit Risk - The Authority has an investment policy that prohibits the following investments: warrants, options, futures, collectibles, leveraged securities, or investment strategies, external mutual funds, hedge funds, equity investments in LLC's, unit investment trusts, margin purchases, short sales, securities of corporation service providers, and loaning or pledging securities.

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2005 and 2004

Note 5 - Investments (Continued)

The portfolio's debt securities must have a minimum quality rating of B by Standard & Poors; while the overall portfolio should have an average minimum quality rating of A or its equivalent as determined in good faith by the Authority. At June 30, 2005, the credit quality ratings of debt securities, without regard to investment type, are as follows:

<u>Rating</u>	<u>Fair Value</u>
AAA	\$ 48,599,935
AA	2,983,220
A	16,659,873
BBB	21,403,962
BB	4,111,544
B	<u>239,341</u>
Total	<u>\$ 93,997,875</u>

The rating organization used by the Authority to rate its investments is Standard & Poor's.

Concentration of Credit Risk - Equity portfolios must consist of well-diversified, publicly held stocks, listed on U.S. stock exchanges. The Authority may not invest in more than 5 percent of the outstanding securities of one issuer nor invest more than 5 percent of the portfolio's assets in the outstanding securities of one issuer. There were no investments that individually exceed 5 percent of the Authority's total investments at June 30, 2005.

Foreign Currency Risk - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value, as a result of changes in foreign currency exchange rates. The Authority's investments in foreign government, foreign corporate and Euro-forward contracts, \$3,395,701 at June 30, 2005, are subject to foreign currency risk.

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2005 and 2004

Note 5 - Investments (Continued)

At June 30, 2004, the Authority's investments, at fair market value, consisted of the following:

Government securities	\$ 4,986,615
Mutual funds - Equity securities	120,642,656
Fixed-maturity securities	<u>50,274,934</u>
Total investments	<u>\$ 175,904,205</u>

Note 6 - Employee Benefits

Defined Contribution Plans - The Authority funds a 401(a) defined contribution plan (the "Plan") which provides retirement benefits to its employees. Amounts contributed to the Plan by the Authority are based on 15 percent of the executive director's W-2 income and 12 percent of all other employees' W-2 income. An employee must be employed one year before becoming eligible. Contributions were approximately \$250,000 and \$214,000 in fiscal years 2005 and 2004, respectively.

Effective July 1, 1999, the Authority adopted a Post Employment Health Plan ("PEHP"), a defined contribution health plan, to fund employee health benefits after terminating employment. All employees that are eligible for the Plan are also eligible for the PEHP. The PEHP is funded entirely by Authority contributions and is based on a formula which results in the same amount being contributed for each eligible employee. The employees have the ability to direct their portion of the funds into various investment options. The investment balances can be used by the terminating employee for eligible benefits under the program. After remitting the Authority's contribution for the employees, the Authority is not liable for any additional costs related to terminating employees. Upon commencement of the PEHP plan, the Authority funded an amount to recognize prior service costs. During the years 2005 and 2004, the Authority contributed \$64,000 and \$49,000, respectively.

The Authority also allows eligible employees the option of deferring compensation to future periods. The eligible employee can elect to have a portion of his or her salary remitted to the international city managers association for future withdrawal as compensation. The Authority does not maintain the deferred compensation funds and does not defer this compensation cost. As such, included in the statements of revenue, expenses, and changes in net assets are compensation expenses earned by employees during the year, regardless of whether the employees receive funds for compensation or elect to defer a portion of their compensation through this program.

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2005 and 2004

Note 6 - Employee Benefits (Continued)

Defined Benefit Plan - Effective January 1, 2005, the Authority adopted a retiree health benefit program. The program provides limited retiree health and Medicare supplemental coverage for all full-time employees who terminate after January 1, 2005 with a minimum age of 57 years and minimum service of 10 years. The Authority is responsible for a portion of benefit costs based on age and years of service, subject to a maximum payment of costs of \$1,000 per month per retiree, increased by 2.5 percent each year after 2006, with any excess funded by retiree contributions.

The Authority has established a segregated trust under the supervision of the municipal employee's retirement system to accumulate funds for payment of future benefits. At June 30, 2005 no trust contributions have been made. The Authority recognizes the expense of the monthly retiree benefit as the benefits are paid.

Note 7 - Prior Period Adjustment

Prior to 2005, the Authority did not accrue for unallocated loss adjustment expenses (ULAE) required in the future to settle claims incurred to date. The total adjustment to reflect certain liabilities for ULAE that should have been recorded in prior years was \$6,109,538. Of this amount, increase in net assets in 2004 has been reduced by \$1,927,432, and unrestricted net assets at July 1, 2003 has been reduced by \$4,182,106. There was no effect on increase in net assets in 2005.

Note 8 - Litigation Matters

The Authority is involved in various litigation and legal matters, which are being defended and handled in the ordinary course of business. The costs of any claims ultimately paid to cover the Authority's portion of a legal obligation, with respect to these matters constitute expenses to the Authority. In the opinion of the Authority's management and legal counsel, the ultimate resolution of these various litigation issues will not have a material effect on the Authority and its members.

Required Supplemental Information

Michigan Municipal Risk Management Authority

Required Supplementary Information Schedule of Claims Information for All Lines of Coverage

The table on the following page illustrates how the Authority's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Authority as of the end of each of the last 10 years. The rows of the table are defined as follows:

- (1) This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.
- (2) This line shows each fiscal year's other operating costs of the Authority, including overhead and claims expenses not allocable to individual claims.
- (3) This line shows the Authority's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued), as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- (4) This section of 10 rows shows the cumulative net amounts paid as of the end of successive years for each policy year.
- (5) This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.
- (6) This section of 10 rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, and emergence of new claims not previously known.
- (7) This line compares the latest re-estimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought.

As data for individual policy years matures, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

Michigan Municipal Risk Management Authority

Required Supplementary Information Schedule of Claims Information for All Lines of Coverage (Continued)

Fiscal Year Ended June 30	1996	1997	1998	1999	2000	2001	2002	2003*	2004*	2005
Required contributions and investment revenue:										
Earned	\$ 38,379,205	\$ 36,597,113	\$ 45,337,083	\$ 45,905,155	\$ 53,398,313	\$ 39,151,457	\$ 13,694,683	\$ 43,545,899	\$ 57,799,986	\$ 63,651,858
Ceded	6,517,107	5,771,614	5,109,520	6,311,948	7,623,509	7,673,013	12,751,916	3,247,813	14,069,985	13,592,635
Net earned	31,862,098	30,825,499	40,227,563	39,593,207	45,774,804	31,478,444	942,767	40,298,086	43,730,001	50,059,223
Unallocated expenses*	5,181,352	5,550,003	6,379,930	6,700,960	7,258,409	7,742,554	7,875,954	12,671,134	11,048,572	10,070,451
Policy Year Ended June 30 (in thousands)										
Estimated incurred claims and expenses, end of policy year:										
Incurred	20,017	21,195	23,498	27,828	23,060	45,115	28,080	34,113	30,169	37,548
Ceded	-	152	2,500	143	102	19,978	1,127	7,047	2,627	5,833
Net incurred	20,017	21,043	20,998	27,685	22,958	25,137	26,953	27,066	27,542	31,715
Net paid (cumulative) as of:										
End of policy year	823	1,328	1,230	2,833	1,297	3,593	1,721	2,836	1,352	1,641
One year later	3,224	3,637	3,236	4,514	3,285	5,965	4,342	5,040	5,393	-
Two years later	6,919	8,433	7,250	7,185	7,452	8,595	6,188	8,280	-	-
Three years later	8,484	10,573	12,213	8,784	12,117	10,875	7,309	-	-	-
Four years later	9,427	13,044	13,781	10,461	14,339	11,040	-	-	-	-
Five years later	9,708	15,079	14,486	11,516	15,706	-	-	-	-	-
Six years later	10,614	16,324	15,286	11,597	-	-	-	-	-	-
Seven years later	11,342	18,428	15,833	-	-	-	-	-	-	-
Eight years later	11,342	18,567	-	-	-	-	-	-	-	-
Nine years later	11,342	-	-	-	-	-	-	-	-	-
Re-estimated ceded claims and expenses	-	77	116	20	25	1,750	208	5,075	3,393	5,833
Re-estimated incurred claims and expenses:										
End of policy year	20,016	21,041	20,998	27,685	22,958	25,137	26,953	27,066	27,542	31,715
One year later	19,750	20,062	22,244	23,777	20,213	28,572	23,691	25,489	26,407	-
Two years later	14,903	18,481	19,432	16,639	21,333	23,867	18,160	21,056	-	-
Three years later	13,489	17,490	18,804	15,694	19,048	17,678	13,062	-	-	-
Four years later	12,273	18,764	16,386	12,619	19,260	14,248	-	-	-	-
Five years later	11,515	18,236	16,376	12,897	18,599	-	-	-	-	-
Six years later	11,297	18,049	16,796	11,958	-	-	-	-	-	-
Seven years later	11,704	19,609	16,387	-	-	-	-	-	-	-
Eight years later	11,342	19,507	-	-	-	-	-	-	-	-
Nine years later	11,342	-	-	-	-	-	-	-	-	-
Decrease in estimated incurred claims and expenses, end of policy year	(8,675)	(1,536)	(4,611)	(15,727)	(4,359)	(10,889)	(13,891)	(6,010)	(1,135)	-

* Re-estimated incurred claims and expenses: The unallocated expenses line item for 2004 and 2003 includes \$1,927,432 and \$4,182,106, respectively, related to unallocated loss adjustment expense (ULAE) that applies to the 2004 and prior policy years.

Other Supplemental Information

Statement of Reconciliation of Unpaid Claims and Claims Adjustment Expense Liability by Type of Contract (in thousands)

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Michigan Municipal Risk Management Authority
Comprehensive Annual Financial Report - June 30, 2005

COMPOSITION OF INVESTMENTS
AS OF JUNE 30, 2005

	<u>Carrying Value</u>	<u>Market Value</u>
Mutual Funds - Equities		
World Asset Management	\$ 50,005,594	\$49,694,316
Mid Cap Index and Large Cap Growth & Value		
BZW Barclays Global Investors Core Small Cap	<u>52,126,949</u>	<u>68,643,216</u>
Total Equity Portfolio	<u>\$102,132,543</u>	<u>\$118,337,532</u>
Fixed Income Investments		
U.S. Treasury Bond held in escrow by State of Michigan	<u>\$4,965,540</u>	<u>\$5,000,000</u>
Hartford Investment Management		
U.S. Government	\$20,991,506	\$16,419,746
U.S. Government Agencies & Asset Backed	7,930,395	8,021,308
State and Municipal	229,214	240,337
Corporate	33,340,875	34,103,246
Corporate Asset Backed	13,041,628	13,052,087
Private Placements	2,937,909	3,012,761
Foreign Government & Agencies	1,796,662	1,808,757
Foreign Corporate	1,510,467	1,586,900
Other Debt Securities	2,230,165	2,157,731
Euro/UDS Currency Forward (Net)	<u>44</u>	<u>44</u>
Total Hartford Portfolio	<u>\$84,008,865</u>	<u>\$80,402,917</u>
Pending Trades	<u>(2,425,739)</u>	<u>(2,425,739)</u>
TOTAL INVESTMENTS	<u>\$188,681,209</u>	<u>201,314,710</u>

The Board of Directors has established an investment policy with an overall objective of moderate growth of assets consistent with lower fluctuations of market values and protection against erosion of purchasing power caused by inflation. Each investment transaction shall seek to ensure that capital losses are minimized whether caused by security defaults or decline in market value. The goal of MMRMA is to attain, on the total portfolio, an above-market average rate of return throughout economic cycles, taking into account MMRMA's investment risk constraints. The asset allocation plan and target is 25% to 60% invested in U.S. equities, 35% to 75% in fixed income and 5% to 20% in cash and cash equivalents. For additional information on the types of equity and fixed income securities that are permitted, please refer to the Management's Discussion and Analysis letter elsewhere in this report. Currently, all of MMRMA's investments are professionally managed and held in trust by Comerica Bank. A \$5 million bond is held in escrow by the State of Michigan in lieu of an excess aggregate policy as required by statute.

Michigan Municipal Risk Management Authority
Comprehensive Annual Financial Report - June 30, 2005

REINSURANCE RECEIVABLE ANALYSIS
AS OF JUNE 30, 2005

<u>Fiscal Year</u>	<u>Total Billed</u>	<u>Received as of June 30, 2005</u>	<u>Receivable as of June 30, 2005</u>
1995 and prior	\$ 106,929,561	\$ 106,929,561	\$ -----
1996	4,769,216	4,769,216	-----
1997	10,641,236	10,641,236	-----
1998	9,149,791	8,997,908	151,883
1999	1,092,670	1,018,898	73,772
2000	1,797,739	1,797,239	500
2001	8,824,916	2,472,709	6,352,207
2002	98,469	94,882	3,587
2003	5,856,962	2,967,522	2,889,440
2004	2,032,613	2,022,881	9,732
2005	-----	-----	-----
TOTALS	<u>\$151,193,173</u>	<u>\$141,712,052</u>	<u>\$9,481,121</u>

Note: The audited Statement of Financial Position as of June 30, 2005 shows a reinsurance receivable of \$9,481,121. Of that amount, \$8,959,123 has been submitted to reinsurers for recovery of claim payments and is represented in the aging schedule below.

<u>Aging</u>	
0 - 90 days	\$ 8,813,217
91 - 180 days	0
181 days and over	<u>145,906</u>
	<u>\$ 8,959,123</u>

Michigan Municipal Risk Management Authority
Comprehensive Annual Financial Report - June 30, 2005

**AGING OF REINSURANCE RECOVERABLE ON
FINALIZED AND SUBMITTED LOSSES**

As of June 30, 2005

<u>Name of Reinsurer</u>	<u>Location</u>	<u>Days Overdue</u>		<u>Total</u>
		<u>0-90 Days</u>	<u>181+ Days</u>	
SCOR Reinsurance Co.	New York	2,511,893	---	2,511,893
Hartford Fire Insurance Co.	Connecticut	1,045,842	89,173	1,135,015
St. Paul Fire & Marine Ins. Co.	Minnesota	900,248	---	900,248
Westchester Fire Ins. Co.	New York	720,393	56,733	777,126
Ace Property & Casualty	Pennsylvania	748,762	---	748,762
Continental Casualty Co.	Illinois	671,750	---	671,750
GE Reinsurance Co.	Illinois	599,010	---	599,010
Folksamerica Reinsurance Co.	New York	476,304	---	476,304
Federal Insurance Co.	Indiana	340,421	---	340,421
PMA Capital Ins. Co.	Pennsylvania	315,488	---	315,488
Trenwick America Reins. Corp.	Connecticut	236,682	---	236,682
Partner Reins. Co. of the U.S.	New York	224,629	---	224,629
Terra Nova	United Kingdom	21,795	---	21,795
TOTALS		<u>\$8,813,217</u>	<u>\$145,906</u>	<u>\$8,959,123</u>

CEDED REINSURANCE AS OF JUNE 30, 2005

Reinsurer's NAIC Number or AAIN Number	Name of Reinsurer	Location or Domicile (U.S.)	Reinsurance Recoverable On Paid Losses	Reinsurance Recoverable On Reported & IBNR Undiscounted
AA-3190002	Ace Bermuda Insurance Ltd.	Bermuda	\$468,399	\$499,100
24767	St. Paul Fire & Marine Insurance Co.	Minnesota	902,259	1,447,002
24902	Security Insurance Co. Of Hartford	Connecticut	0	1,546
20443	Continental Casualty Company	Illinois	677,964	326,617
20699	ACE Property & Casualty	Pennsylvania	752,447	4,047,712
AA-3190770	ACE Tempest Reins. Co. Ltd.	Bermuda	0	50,324
39675	PMA Capital Insurance Co.	Pennsylvania	316,962	1,231,342
38636	Partner Reins. Co. Of the U.S.	New York	225,734	1,648,200
34894	Trenwick America Reins Corp.	Connecticut	236,781	20,216
23043	Liberty Mutual Ins. Co.	Massachusetts	0	239,774
AA-1121300	SCOR (UK) Company, Ltd.	United Kingdom	0	104,704
22969	GE Reinsurance Company	Illinois	618,043	4,534,057
30058	SCOR Reinsurance Company	New York	2,515,158	560,725
29700	North American Elite Ins. Co.	New Hampshire	0	78,996
38776	Folksamerica Reinsurance Co.	New York	482,482	245,866
21121	Westchester Fire Ins. Co.	New York	780,203	207,539
20281	Federal Insurance Co.	Indiana	340,726	75,121
19682	Hartford Fire Insurance Co.	Connecticut	1,141,810	247,195
32603	Berkley Insurance Co.	Delaware	358	209,117
AA-1121425	Terra Nova	United Kingdom	21,795	6,121
25658	Travelers Indemnity Co.	Connecticut	0	536,626
11687	Government Entities Mutual	Washington DC	0	846,944
33197	Cologne	Connecticut	0	23,534
10357	Platinum Underwriters	Maryland	0	97,193
		TOTALS	9,481,121	17,285,571

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY
Loss Development through June 30, 2005
Paid Losses: All Funds

Accident Year	6/30/96	6/30/97	6/30/1998	6/30/1999	6/30/2000	6/30/2001	6/30/2002	6/30/2003	6/30/2004	6/30/2005
1996 & prior										
1997	\$62,793,395	\$71,778,277	\$80,200,041	\$85,835,745	\$87,777,505	\$88,586,033	\$89,567,427	\$90,910,729	\$90,941,062	\$91,043,800
1998		\$1,326,823	\$3,635,158	\$8,431,861	\$10,571,395	\$12,896,106	\$15,077,061	\$16,175,808	\$16,241,590	\$16,380,071
1999			\$1,223,678	\$3,230,065	\$7,243,357	\$12,206,785	\$13,774,456	\$14,480,845	\$15,280,909	\$15,801,710
2000				\$2,832,575	\$4,514,233	\$7,184,892	\$8,784,286	\$10,461,415	\$11,515,510	\$11,590,899
2001					\$1,296,666	\$3,284,861	\$7,451,550	\$12,117,426	\$14,339,013	\$15,155,401
2002						\$3,593,302	\$5,965,106	\$8,594,641	\$10,875,026	\$11,035,246
2003							\$1,720,524	\$4,342,116	\$6,188,463	\$7,308,676
2004								\$2,886,167	\$5,039,848	\$8,280,087
2005									\$1,352,547	\$5,392,842
Total	\$62,793,395	\$73,105,100	\$85,058,877	\$100,330,246	\$111,403,155	\$127,751,978	\$142,340,410	\$159,969,147	\$171,773,968	\$183,629,793

Accident Year	86-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	Total
1996 & prior											
1997	\$62,793,395	\$8,984,882	\$8,421,764	\$5,635,704	\$1,941,760	\$808,528	\$981,394	\$1,343,302	\$30,333	\$102,738	\$91,043,800
1998		\$1,326,823	\$2,308,335	\$4,796,703	\$2,139,534	\$2,324,711	\$2,180,955	\$1,098,747	\$65,782	\$138,481	\$16,380,071
1999			\$1,223,678	\$2,006,387	\$4,013,292	\$4,963,428	\$1,567,672	\$706,389	\$800,064	\$520,801	\$15,801,710
2000				\$2,832,575	\$1,681,658	\$2,670,659	\$1,599,394	\$1,677,129	\$1,054,095	\$75,389	\$11,590,899
2001					\$1,296,666	\$1,988,195	\$4,166,689	\$4,665,876	\$2,221,587	\$816,389	\$15,155,401
2002						\$3,593,302	\$2,629,535	\$2,629,535	\$2,280,385	\$160,220	\$11,035,246
2003							\$2,371,804	\$2,621,592	\$1,846,347	\$1,120,213	\$7,308,676
2004								\$2,886,167	\$2,153,681	\$3,240,239	\$8,280,087
2005									\$1,352,547	\$4,040,295	\$5,392,842
Total	\$62,793,395	\$10,311,705	\$11,953,777	\$15,271,369	\$11,072,910	\$16,348,823	\$14,588,432	\$17,628,737	\$11,804,821	\$11,855,824	\$183,629,793

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY
Loss Development through June 30, 2005
Case Reserves: All Funds

Accident Year	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04	6/30/05
1996 & prior	\$10,753,746	\$10,020,822	\$7,176,335	\$5,265,737	\$4,441,066	\$2,409,760	\$1,473,343	\$488,476	\$169,506	\$779,056
1997		\$2,513,129	\$3,338,218	\$3,805,433	\$3,870,223	\$3,875,654	\$2,186,998	\$1,260,730	\$878,807	\$808,417
1998			\$2,395,448	\$6,449,256	\$5,645,241	\$2,894,910	\$1,139,380	\$1,229,151	\$1,037,581	\$325,889
1999				\$1,015,202	\$2,600,967	\$2,367,687	\$3,736,978	\$1,246,221	\$933,185	\$138,562
2000					\$1,126,627	\$3,628,456	\$4,883,273	\$2,645,636	\$2,559,583	\$1,996,065
2001						\$4,401,804	\$5,084,771	\$5,812,157	\$2,428,598	\$1,762,648
2002							\$1,346,932	\$1,782,919	\$2,336,172	\$2,523,638
2003								\$2,038,722	\$4,941,765	\$3,856,587
2004									\$2,533,387	\$4,301,103
2005										\$4,225,374
Total	\$10,753,746	\$12,533,951	\$12,910,001	\$16,535,628	\$17,684,124	\$19,578,271	\$19,851,675	\$16,504,012	\$17,818,584	\$20,717,339

Accident Year	86-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	Total
1996 & prior	\$10,753,746	(\$732,924)	(\$2,844,487)	(\$1,910,598)	(\$824,671)	(\$2,031,306)	(\$936,417)	(\$984,867)	(\$318,970)	\$609,550	\$779,056
1997		\$2,513,129	\$825,089	\$467,215	\$64,790	\$5,431	(\$1,688,656)	(\$926,268)	(\$381,923)	(\$70,390)	\$808,417
1998			\$2,395,448	\$4,053,808	(\$804,015)	(\$2,750,331)	(\$1,755,530)	\$89,771	(\$191,570)	(\$711,692)	\$325,889
1999				\$1,015,202	\$1,585,765	(\$233,280)	\$1,369,291	(\$2,490,757)	(\$313,036)	(\$794,623)	\$138,562
2000					\$1,126,627	\$2,501,829	\$1,254,817	(\$2,237,637)	(\$86,053)	(\$563,518)	\$1,996,065
2001						\$4,401,804	\$682,967	\$727,386	(\$3,383,559)	(\$665,950)	\$1,762,648
2002							\$1,346,932	\$435,987	\$553,253	\$187,466	\$2,523,638
2003								\$2,038,722	\$2,903,043	(\$1,085,178)	\$3,856,587
2004									\$2,533,387	\$1,767,716	\$4,301,103
2005									\$0	\$4,225,374	\$4,225,374
Total	\$10,753,746	\$1,780,205	\$376,050	\$3,625,627	\$1,148,496	\$1,894,147	\$273,404	(\$3,347,663)	\$1,314,572	\$2,898,755	\$20,717,339

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY
Loss Development through June 30, 2005
Reported Losses (Paid Losses Plus Case Reserves): All Funds

Accident Year	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04	6/30/05
1996 & prior	\$73,547,141	\$81,799,099	\$87,376,376	\$91,101,482	\$92,218,571	\$90,995,793	\$91,040,770	\$91,399,205	\$91,110,568	\$91,822,856
1997		\$3,839,952	\$6,973,376	\$12,237,294	\$14,441,618	\$16,771,760	\$17,264,059	\$17,436,538	\$17,120,397	\$17,188,488
1998			\$3,619,126	\$9,679,321	\$12,888,598	\$15,101,695	\$14,913,836	\$15,709,996	\$16,318,490	\$16,127,599
1999				\$3,847,777	\$7,115,200	\$9,552,579	\$12,521,264	\$11,707,636	\$12,448,695	\$11,729,461
2000					\$2,423,293	\$6,913,317	\$12,334,823	\$14,763,062	\$16,898,596	\$17,151,466
2001						\$7,995,106	\$11,049,877	\$14,406,798	\$13,303,624	\$12,797,894
2002							\$3,067,456	\$6,125,035	\$8,524,635	\$9,832,314
2003								\$4,924,889	\$9,981,613	\$12,136,674
2004									\$3,885,934	\$9,693,945
2005										\$5,866,434
Total	\$73,547,141	\$85,639,051	\$97,968,878	\$116,865,874	\$129,087,280	\$147,330,250	\$162,192,086	\$176,473,159	\$189,592,552	\$204,347,132

Accident Year	86-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	03-04	Total
1996 & prior	\$73,547,141	\$8,251,958	\$5,577,277	\$3,725,106	\$1,117,089	(\$1,222,778)	\$44,977	\$358,435	(\$288,637)	\$712,288	\$91,822,856
1997		\$3,839,952	\$3,133,424	\$5,263,918	\$2,204,324	\$2,330,142	\$492,299	\$172,479	(\$316,141)	\$68,091	\$17,188,488
1998			\$3,619,126	\$6,060,195	\$3,209,277	\$2,213,097	(\$187,858)	\$796,160	\$608,494	(\$190,891)	\$16,127,599
1999				\$3,847,777	\$3,267,423	\$2,437,379	\$2,968,685	(\$813,628)	\$741,059	(\$719,234)	\$11,729,461
2000					\$2,423,293	\$4,490,024	\$5,421,506	\$2,428,239	\$2,135,534	\$252,871	\$17,151,466
2001						\$7,995,106	\$3,054,771	\$3,356,921	(\$1,103,174)	(\$505,730)	\$12,797,894
2002						\$0	\$3,067,456	\$3,399,600	\$2,399,600	\$1,307,679	\$9,832,314
2003								\$3,057,579	\$5,056,724	\$2,155,061	\$12,136,674
2004								\$4,924,889	\$3,885,934	\$5,808,011	\$9,693,945
2005										\$5,866,434	\$5,866,434
Total	\$73,547,141	\$12,091,910	\$12,329,827	\$18,896,996	\$12,221,406	\$18,242,970	\$14,861,836	\$14,281,074	\$13,119,393	\$14,754,579	\$204,347,132

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY
Ten Years of Loss Development through June 30, 2005
Closed Claim Counts: All Funds

Accident Year	6/30/95	6/30/96	6/30/97	6/30/1998	6/30/1999	6/30/2000	6/30/01	6/30/2002	6/30/2003	6/30/2004	6/30/2005
1996		1,476	2,521	2,822	2,990	3,105	3,156	3,211	3,224	3,234	3,242
1997			1,554	2,629	2,904	3,072	3,179	3,240	3,259	3,271	3,272
1998			-	1,390	2,326	2,572	2,745	2,874	2,918	2,986	2,989
1999					1,672	2,693	2,933	3,124	3,198	3,291	3,356
2000						1,381	2,360	2,627	2,782	2,903	2,931
2001							1,874	3,145	3,382	3,576	3,666
2002								1,805	2,706	2,920	3,053
2003									1,823	2,933	3,121
2004										1,614	3,104
2005											1,490
Total	-	1,476	4,075	6,841	9,892	12,823	16,247	20,026	23,292	26,728	30,224

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY
Ten Years of Loss Development ending June 30, 2005
Reported Claim Counts: All Funds

Accident Year	Evaluation (as of) Date:									
	6/30/96	6/30/97	6/30/1998	6/30/1999	6/30/2000	6/30/01	6/30/2002	6/30/2003	6/30/2004	6/30/2005
1996	2,293	2,820	2,913	2,950	2,957	2,963	2,967	3,255	3,258	3,258
1997		2,474	3,028	3,172	3,214	3,244	3,250	3,290	3,290	3,290
1998			2,660	3,114	3,236	3,278	3,285	2,980	3,011	3,012
1999				2,341	2,759	2,899	2,965	3,298	3,368	3,368
2000					2,650	3,093	3,234	2,940	2,976	2,976
2001						2,306	2,772	3,667	3,746	3,756
2002							3,112	3,001	3,135	3,180
2003								2,816	3,200	3,312
2004									2,695	3,388
2005										2,182
Total	2,293	5,294	8,601	11,577	14,816	17,783	21,585	25,247	28,679	31,722

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY
Loss Development through June 30, 2005
Paid Losses: Auto and General Liability

Accident Year	6/30/96	6/30/97	6/30/1998	6/30/1999	6/30/2000	6/30/2001	6/30/2002	6/30/2003	6/30/2004	6/30/2005
1996 & prior	\$54,626,614	\$62,659,601	\$71,158,375	\$76,799,273	\$78,750,573	\$79,501,689	\$80,486,539	\$81,835,704	\$81,871,516	\$81,977,710
1997		\$157,684	\$2,116,743	\$6,656,661	\$8,796,195	\$11,180,677	\$13,361,632	\$14,460,379	\$14,526,161	\$14,664,642
1998			\$187,433	\$1,007,301	\$4,981,711	\$9,951,298	\$11,518,174	\$12,224,563	\$13,024,627	\$13,531,776
1999				\$1,077,850	\$1,910,475	\$4,354,055	\$5,953,209	\$7,630,338	\$8,684,433	\$8,750,085
2000					\$651,602	\$1,549,419	\$5,618,248	\$10,271,625	\$12,494,450	\$13,312,130
2001						\$2,275,663	\$3,911,632	\$6,532,569	\$8,813,544	\$8,973,039
2002							\$1,073,077	\$2,838,737	\$4,644,053	\$5,770,164
2003								\$801,676	\$1,744,369	\$4,929,519
2004									\$300,185	\$3,375,539
2005										\$394,372
Total	\$54,626,614	\$62,817,285	\$73,462,551	\$85,541,085	\$95,090,556	\$108,812,801	\$121,922,511	\$136,595,591	\$146,103,338	\$155,678,976

Accident Year	86-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	Total
1996 & prior	\$54,626,614	\$8,032,987	\$8,498,774	\$5,640,898	\$1,951,300	\$751,116	\$984,850	\$1,349,165	\$35,812	\$106,194	\$81,977,710
1997		\$157,684	\$1,959,059	\$4,539,918	\$2,139,534	\$2,384,482	\$2,180,955	\$1,098,747	\$65,782	\$138,481	\$14,664,642
1998			\$187,433	\$819,868	\$3,974,410	\$4,969,587	\$1,566,876	\$706,389	\$800,064	\$507,149	\$13,531,776
1999				\$1,077,850	\$832,625	\$2,443,580	\$1,599,154	\$1,677,129	\$1,054,095	\$65,652	\$8,750,085
2000					\$651,602	\$897,817	\$4,068,829	\$4,653,377	\$2,222,825	\$817,680	\$13,312,130
2001						\$2,275,663	\$1,635,969	\$2,620,937	\$2,280,975	\$159,495	\$8,973,039
2002							\$1,073,077	\$1,765,660	\$1,805,316	\$1,126,111	\$5,770,164
2003								\$801,676	\$942,693	\$3,185,150	\$4,929,519
2004									\$300,185	\$3,075,354	\$3,375,539
2005										\$394,372	\$394,372
Total	\$54,626,614	\$8,190,671	\$10,645,266	\$12,078,534	\$9,549,471	\$13,722,245	\$13,109,709	\$14,673,080	\$9,507,747	\$9,575,638	\$155,678,976

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY
Loss Development through June 30, 2005
Case Reserves: Auto and General Liability

Accident Year	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04	6/30/05
1996 & prior	\$9,935,113	\$9,957,031	\$7,172,735	\$5,262,137	\$4,376,589	\$2,406,160	\$1,473,343	\$488,476	\$169,506	\$779,056
1997		\$1,936,139	\$2,956,920	\$3,801,433	\$3,868,223	\$3,874,654	\$2,186,998	\$1,260,730	\$878,807	\$808,417
1998			\$1,768,770	\$6,407,670	\$5,636,168	\$2,894,700	\$1,139,380	\$1,229,151	\$1,037,581	\$325,889
1999				\$394,329	\$2,379,291	\$2,367,642	\$3,736,978	\$1,246,221	\$933,185	\$138,562
2000					\$282,614	\$3,555,197	\$4,873,495	\$2,645,636	\$2,559,583	\$1,996,065
2001						\$3,868,578	\$5,059,031	\$5,799,557	\$2,415,998	\$1,762,648
2002							\$318,600	\$1,701,576	\$2,318,791	\$2,511,038
2003								\$889,103	\$4,831,945	\$3,856,587
2004									\$2,040,821	\$4,223,922
2005										\$3,021,727
Total	\$9,935,113	\$11,893,170	\$11,898,425	\$15,865,569	\$16,542,885	\$18,966,931	\$18,787,826	\$15,260,450	\$17,186,217	\$19,423,911

Change in Case Reserves During:

Accident Year	86-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	Total
1996 & prior	\$9,935,113	\$21,918	(\$2,784,296)	(\$1,910,598)	(\$885,548)	(\$1,970,429)	(\$932,817)	(\$984,867)	(\$318,970)	\$609,550	\$779,056
1997		\$1,936,139	\$1,020,781	\$844,513	\$66,790	\$6,431	(\$1,687,656)	(\$926,268)	(\$381,923)	(\$70,390)	\$808,417
1998			\$1,768,770	\$4,638,900	(\$771,502)	\$2,741,468	(\$1,755,320)	\$89,771	(\$191,570)	(\$711,692)	\$325,889
1999				\$394,329	\$1,984,962	(\$11,649)	\$1,369,336	(\$2,490,757)	(\$313,036)	(\$794,623)	\$138,562
2000					\$282,614	\$3,272,583	\$1,318,298	(\$2,227,859)	(\$86,053)	(\$563,518)	\$1,996,065
2001						\$3,868,578	\$1,190,453	\$740,526	(\$3,383,559)	(\$653,350)	\$1,762,648
2002							\$318,600	\$1,382,976	\$617,215	\$192,247	\$2,511,038
2003								\$889,103	\$3,942,842	(\$975,358)	\$3,856,587
2004									\$2,040,821	\$2,183,101	\$4,223,922
2005										\$3,021,727	\$3,021,727
Total	\$9,935,113	\$1,958,057	\$5,255	\$3,967,144	\$677,316	\$2,424,046	(\$179,105)	(\$3,527,376)	\$1,925,767	\$2,237,694	\$19,423,911

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY
 Loss Development through June 30, 2005
 Reported Losses (Paid Losses Plus Case Reserves): Auto and General Liability

Accident Year	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04	6/30/05
1996 & prior	\$64,561,727	\$72,616,632	\$78,331,110	\$82,061,410	\$83,127,162	\$81,907,849	\$81,959,882	\$82,324,180	\$82,041,022	\$82,756,766
1997		\$2,093,823	\$5,073,663	\$10,458,094	\$12,664,418	\$15,055,331	\$15,548,630	\$15,721,109	\$15,404,968	\$15,473,059
1998			\$1,956,203	\$7,414,971	\$10,617,879	\$12,845,998	\$12,657,554	\$13,453,714	\$14,062,208	\$13,857,665
1999				\$1,472,179	\$4,289,766	\$6,721,697	\$9,690,187	\$8,876,559	\$9,617,618	\$8,888,647
2000					\$934,216	\$5,104,616	\$10,491,743	\$12,917,261	\$15,054,033	\$15,308,195
2001						\$6,144,241	\$8,970,663	\$12,332,126	\$11,229,542	\$10,735,687
2002							\$1,391,677	\$4,540,313	\$6,962,844	\$8,281,202
2003								\$1,690,779	\$6,576,314	\$8,786,106
2004									\$2,341,006	\$7,599,461
2005										\$3,416,099
Total	\$64,561,727	\$74,710,455	\$85,360,976	\$101,406,654	\$111,633,441	\$127,779,732	\$140,710,337	\$151,856,040	\$163,289,555	\$175,102,887

Accident Year	86-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	Total
1996 & prior	\$64,561,727	\$8,054,905	\$5,714,478	\$3,730,300	\$1,065,752	(\$1,219,313)	\$52,033	\$364,298	(\$283,158)	\$715,744	\$82,756,766
1997		\$2,093,823	\$2,979,840	\$5,384,431	\$2,206,324	\$2,390,913	\$493,299	\$172,479	(\$316,141)	\$68,091	\$15,473,059
1998			\$1,956,203	\$5,458,768	\$3,202,908	\$2,228,119	(\$188,444)	\$796,160	\$608,494	(\$204,543)	\$13,857,665
1999				\$1,472,179	\$2,817,587	\$2,431,931	\$2,968,490	(\$813,628)	\$741,059	(\$728,971)	\$8,888,647
2000					\$934,216	\$4,170,400	\$5,387,127	\$2,425,518	\$2,136,772	\$254,162	\$15,308,195
2001						\$6,144,241	\$2,826,422	\$3,361,463	(\$1,102,584)	(\$493,855)	\$10,735,687
2002							\$1,391,677	\$3,148,636	\$2,422,531	\$1,318,358	\$8,281,202
2003								\$1,690,779	\$4,885,535	\$2,209,792	\$8,786,106
2004									\$2,341,006	\$5,258,455	\$7,599,461
2005										\$3,416,099	\$3,416,099
Total	\$64,561,727	\$10,148,728	\$10,650,521	\$16,045,678	\$10,226,787	\$16,146,291	\$12,930,604	\$11,145,704	\$11,433,514	\$11,813,332	\$175,102,887

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY
Ten Years of Loss Development ending June 30, 2005
Reported Claim Counts: Auto & General Liability

Accident Year	Evaluation (as of) Date:									
	6/30/96	6/30/97	6/30/1998	6/30/1999	6/30/2000	6/30/01	6/30/2002	6/30/2003	6/30/2004	6/30/2005
1996	1,820									
1997		2,303	2,446	2,487	2,517	2,522	2,523	2,527	2,530	2,530
1998		1,926	2,317	2,436	2,478	2,485	2,489	2,490	2,490	2,490
1999			1,630	1,959	2,098	2,164	2,178	2,179	2,210	2,211
2000				1,824	2,197	2,333	2,385	2,397	2,467	2,467
2001					1,559	1,917	2,020	2,080	2,116	2,116
2002						2,189	2,549	2,627	2,706	2,716
2003							1,622	1,966	2,099	2,142
2004								1,889	2,191	2,297
2005									1,791	2,364
Totals	1,820	4,229	6,393	8,706	10,849	13,610	15,766	18,155	20,600	22,679

Total

\$122,158
\$22,060
\$45,288
\$28,431
\$137,759
\$54,454
\$102,888
\$462,623
\$161,809
\$66,123

\$1,203,593

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY
Loss Development through June 30, 2005
Paid Losses: Auto Physical Damage

Accident Year	6/30/96	6/30/97	6/30/1998	6/30/1999	6/30/2000	6/30/2001	6/30/2002	6/30/2003	6/30/2004	6/30/2005
1996 & prior	\$111,417	\$121,561	\$122,158	\$122,158	\$122,158	\$122,158	\$122,158	\$122,158	\$122,158	\$122,158
1997		\$22,060	\$22,060	\$22,060	\$22,060	\$22,060	\$22,060	\$22,060	\$22,060	\$22,060
1998			\$17,259	\$45,288	\$45,288	\$45,288	\$45,288	\$45,288	\$45,288	\$45,288
1999				\$39,928	\$31,048	\$28,191	\$28,431	\$28,431	\$28,431	\$28,431
2000					\$130,302	\$139,359	\$138,379	\$137,759	\$137,759	\$137,759
2001						\$40,798	\$55,201	\$54,454	\$54,454	\$54,454
2002							\$66,921	\$102,888	\$102,888	\$102,888
2003								\$116,909	\$459,623	\$462,623
2004									\$72,579	\$161,809
2005										\$66,123
Total	\$111,417	\$143,621	\$161,477	\$229,434	\$350,856	\$397,854	\$478,438	\$629,947	\$1,045,240	\$1,203,593

Accident Year	86-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	Total
1996 & prior	\$111,417	\$10,144	\$597	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$122,158
1997		\$22,060	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$22,060
1998			\$17,259	\$28,029	\$0	\$0	\$0	\$0	\$0	\$0	\$45,288
1999				\$39,928	(\$8,880)	(\$2,857)	\$240	\$0	\$0	\$0	\$28,431
2000					\$130,302	(\$980)	(\$980)	(\$620)	\$0	\$0	\$137,759
2001						\$9,057	\$14,403	(\$747)	\$0	\$0	\$54,454
2002						\$40,798	\$66,921	\$35,967	\$0	\$0	\$102,888
2003								\$116,909	\$342,714	\$3,000	\$462,623
2004									\$72,579	\$89,230	\$161,809
2005										\$66,123	\$66,123
Total	\$111,417	\$32,204	\$17,856	\$67,957	\$121,422	\$46,998	\$80,584	\$151,509	\$415,293	\$158,354	\$1,203,593

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY
Loss Development through June 30, 2005
Case Reserves: Auto Physical Damage

Accident Year	Evaluation (as of) Date:									
	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04	6/30/05
1996 & prior										
1997	\$3,314	\$3,314	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1998	\$5,000	\$5,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1999			\$18,010	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2000				\$0	\$0	\$0	\$0	\$0	\$0	\$0
2001				\$0	\$0	\$0	\$0	\$0	\$0	\$0
2002					\$11,625	\$0	\$15,000	\$0	\$0	\$0
2003								\$483,200	\$0	\$0
2004								\$8,739	\$8,739	\$0
2005								\$11,395	\$11,395	\$1,073
Total	\$3,314	\$8,314	\$18,010	\$0	\$0	\$11,625	\$15,000	\$483,200	\$20,134	\$1,073

Accident Year	Change in Case Reserves During:									
	86-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05
1996 & prior										
1997	\$3,314	\$0	(\$3,314)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1998		\$5,000	(\$5,000)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1999			\$18,010	(\$18,010)	\$0	\$0	\$0	\$0	\$0	\$0
2000				\$0	\$0	\$0	\$0	\$0	\$0	\$0
2001				\$0	\$0	\$0	\$0	\$0	\$0	\$0
2002				\$11,625	(\$11,625)	\$0	\$0	\$0	\$0	\$0
2003				\$15,000	(\$15,000)	\$0	\$0	\$0	\$0	\$0
2004					\$483,200	(\$474,461)	(\$8,739)	(\$10,322)	(\$19,061)	\$1,073
2005						\$11,395	\$0	\$0	\$0	\$0
Total	\$3,314	\$5,000	\$9,696	(\$18,010)	\$0	\$11,625	\$3,375	\$468,200	(\$463,066)	\$1,073

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY
Loss Development through June 30, 2005
Reported Losses (Paid Losses Plus Case Reserves): Auto Physical Damage

Accident Year	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04	6/30/05
1996 & prior	\$114,731	\$124,875	\$122,158	\$122,158	\$122,158	\$122,158	\$122,158	\$122,158	\$122,158	\$122,158
1997		\$27,060	\$22,060	\$22,060	\$22,060	\$22,060	\$22,060	\$22,060	\$22,060	\$22,060
1998			\$35,269	\$45,288	\$45,288	\$45,288	\$45,288	\$45,288	\$45,288	\$45,288
1999				\$39,928	\$31,048	\$28,191	\$28,431	\$28,431	\$28,431	\$28,431
2000					\$130,302	\$139,359	\$138,379	\$137,759	\$137,759	\$137,759
2001						\$52,423	\$55,201	\$54,454	\$54,454	\$54,454
2002							\$81,921	\$102,888	\$102,888	\$102,888
2003								\$600,109	\$468,362	\$462,623
2004									\$83,974	\$162,882
2005										\$66,123
Total	\$114,731	\$151,935	\$179,487	\$229,434	\$350,856	\$409,479	\$493,438	\$1,113,147	\$1,065,374	\$1,204,666

Accident Year	86-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	03-04	Total
1996 & prior	\$151,935	\$10,144	(\$2,717)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$122,158
1997		\$27,060	(\$5,000)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$22,060
1998			\$35,269	\$10,019	\$0	\$0	\$0	\$0	\$0	\$0	\$45,288
1999				\$39,928	(\$8,880)	(\$2,857)	\$240	\$0	\$0	\$0	\$28,431
2000					\$130,302	\$9,057	(\$980)	(\$620)	\$0	\$0	\$137,759
2001						\$52,423	\$2,778	(\$747)	\$0	\$0	\$54,454
2002							\$81,921	\$20,967	\$0	\$0	\$102,888
2003								\$600,109	(\$131,747)	(\$5,739)	\$462,623
2004									\$83,974	\$78,908	\$162,882
2005										\$66,123	\$66,123
Total	\$151,935	\$37,204	\$27,552	\$49,947	\$121,422	\$58,623	\$83,959	\$619,709	(\$47,773)	\$139,293	\$1,204,666

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY
 Ten Years of Loss Development ending June 30, 2005
 Reported Claim Counts: Auto Physical Liability

Accident Year	Evaluation (as of) Date:									
	6/30/96	6/30/97	6/30/1998	6/30/1999	6/30/2000	6/30/01	6/30/2002	6/30/2003	6/30/2004	6/30/2005
1996	422									
1997		458	459	460	460	461	461	461	461	461
1998		500	529	529	529	529	529	529	529	529
1999			476	515	516	516	516	516	516	516
2000				539	572	573	573	573	573	573
2001					508	566	567	567	567	567
2002						633	691	691	691	691
2003							644	703	703	703
2004								606	651	653
2005									592	655
Total	422	958	1,464	2,043	2,585	3,278	3,981	4,646	5,283	5,906

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY
Loss Development through June 30, 2005
Paid Losses: Property

Accident Year	6/30/96	6/30/97	6/30/1998	6/30/1999	6/30/2000	6/30/2001	6/30/2002	6/30/2003	6/30/2004	6/30/2005
1996 & prior	\$8,055,364	\$8,997,115	\$8,919,508	\$8,914,314	\$8,904,774	\$8,962,186	\$8,958,730	\$8,952,867	\$8,947,388	\$8,943,932
1997		\$1,147,079	\$1,496,355	\$1,753,140	\$1,753,140	\$1,693,369	\$1,693,369	\$1,693,369	\$1,693,369	\$1,693,369
1998			\$1,018,986	\$2,177,476	\$2,216,358	\$2,210,199	\$2,210,994	\$2,210,994	\$2,210,994	\$2,224,646
1999				\$1,714,797	\$2,572,710	\$2,802,646	\$2,802,646	\$2,802,646	\$2,802,646	\$2,812,384
2000					\$514,762	\$1,596,083	\$1,694,923	\$1,708,042	\$1,706,804	\$1,705,512
2001						\$1,276,841	\$1,998,274	\$2,007,619	\$2,007,029	\$2,007,753
2002							\$580,526	\$1,400,491	\$1,441,522	\$1,435,624
2003								\$1,967,582	\$2,835,856	\$2,887,945
2004									\$979,783	\$1,855,494
2005										\$1,180,564
Total	\$8,055,364	\$10,144,194	\$11,434,849	\$14,559,727	\$15,961,743	\$18,541,324	\$19,939,463	\$22,743,610	\$24,625,391	\$26,747,224

Accident Year	86-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	Total
1996 & prior	\$8,055,364	\$941,751	(\$77,607)	(\$5,194)	(\$9,540)	\$57,412	(\$3,456)	(\$5,863)	(\$5,479)	(\$3,456)	\$8,943,932
1997		\$1,147,079	\$349,276	\$256,785	\$0	(\$59,771)	\$0	\$0	\$0	\$0	\$1,693,369
1998			\$1,018,986	\$1,158,490	\$38,882	(\$6,159)	\$796	\$0	\$0	\$13,652	\$2,224,646
1999				\$1,714,797	\$857,913	\$229,936	\$0	\$0	\$0	\$9,738	\$2,812,384
2000					\$514,762	\$1,081,321	\$98,840	\$13,119	(\$1,238)	(\$1,291)	\$1,705,512
2001						\$1,276,841	\$721,433	\$9,345	(\$590)	\$724	\$2,007,753
2002							\$580,526	\$819,965	\$41,031	(\$5,898)	\$1,435,624
2003								\$1,967,582	\$868,274	\$52,089	\$2,887,945
2004									\$979,783	\$875,711	\$1,855,494
2005										\$1,180,564	\$1,180,564
Total	\$8,055,364	\$2,088,830	\$1,290,655	\$3,124,878	\$1,402,017	\$2,579,580	\$1,398,139	\$2,804,148	\$1,881,781	\$2,121,832	\$26,747,224

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY
Loss Development through June 30, 2005
Case Reserves: Property

Accident Year	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04	6/30/05
1996 & prior	\$815,319	\$60,477	\$3,600	\$3,600	\$64,477	\$3,600	\$0	\$0	\$0	\$0
1997		\$571,990	\$381,298	\$4,000	\$2,000	\$1,000	\$0	\$0	\$0	\$0
1998			\$608,668	\$41,586	\$9,073	\$210	\$0	\$0	\$0	\$0
1999				\$620,873	\$221,676	\$45	\$0	\$0	\$0	\$0
2000					\$844,013	\$73,259	\$9,778	\$0	\$0	\$0
2001						\$521,601	\$25,740	\$12,600	\$12,600	\$0
2002							\$1,013,331	\$81,343	\$17,381	\$0
2003								\$666,419	\$101,081	\$12,600
2004									\$481,171	\$76,108
2005										\$1,203,647
Total	\$815,319	\$632,467	\$993,566	\$670,059	\$1,141,239	\$599,715	\$1,048,849	\$760,362	\$612,233	\$1,292,355

Accident Year	86-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	03-04	Total
1996 & prior	\$815,319	(\$754,842)	(\$56,877)	\$0	\$60,877	(\$60,877)	(\$3,600)	\$0	\$0	\$0	\$0
1997		\$571,990	(\$190,692)	(\$377,298)	(\$2,000)	(\$1,000)	(\$1,000)	\$0	\$0	\$0	\$0
1998			\$608,668	(\$567,082)	(\$32,513)	(\$8,863)	(\$210)	\$0	\$0	\$0	\$0
1999				\$620,873	(\$398,197)	(\$221,631)	(\$45)	\$0	\$0	\$0	\$0
2000					\$844,013	(\$770,754)	(\$63,481)	(\$9,778)	\$0	\$0	\$0
2001						\$521,601	(\$495,861)	(\$13,140)	\$0	\$0	\$0
2002							\$1,013,331	(\$931,988)	\$0	(\$12,600)	\$0
2003								\$666,419	(\$63,962)	(\$4,781)	\$12,600
2004									(\$565,338)	(\$101,081)	\$0
2005									\$481,171	(\$405,063)	\$76,108
Total	\$815,319	(\$182,852)	\$361,099	(\$323,507)	\$471,180	(\$541,524)	\$449,134	(\$288,487)	(\$148,129)	\$680,122	\$1,292,355

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY
Loss Development through June 30, 2005
Reported Losses (Paid Losses Plus Case Reserves): Property

Accident Year	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04	6/30/05
1996 & prior										
1997	\$8,870,683	\$9,057,592	\$8,923,108	\$8,917,914	\$8,969,251	\$8,965,786	\$8,958,730	\$8,952,867	\$8,947,388	\$8,943,932
1998		\$1,719,069	\$1,877,653	\$1,757,140	\$1,755,140	\$1,694,369	\$1,693,369	\$1,693,369	\$1,693,369	\$1,693,369
1999			\$1,627,654	\$2,219,062	\$2,225,431	\$2,210,409	\$2,210,994	\$2,210,994	\$2,210,994	\$2,224,646
2000				\$2,335,670	\$2,794,386	\$2,802,691	\$2,802,646	\$2,802,646	\$2,802,646	\$2,812,384
2001					\$1,358,775	\$1,669,342	\$1,704,701	\$1,708,042	\$1,706,804	\$1,705,512
2002						\$1,798,442	\$2,024,014	\$2,020,219	\$2,019,629	\$2,007,753
2003							\$1,593,858	\$1,481,834	\$1,448,224	\$1,448,224
2004								\$2,936,937	\$2,887,945	\$2,887,945
2005								\$1,460,954	\$1,931,602	\$1,931,602
Total	\$8,870,683	\$10,776,661	\$12,428,415	\$15,229,786	\$17,102,982	\$19,141,039	\$20,988,312	\$23,503,972	\$25,237,624	\$28,039,579

Accident Year	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	Total
1996 & prior											
1997	\$1,644,035	\$186,909	(\$134,484)	(\$5,194)	\$51,337	(\$3,465)	(\$7,056)	(\$5,863)	(\$5,479)	(\$3,456)	\$8,943,932
1998		\$1,719,069	\$158,584	(\$120,513)	(\$2,000)	(\$60,771)	(\$1,000)	\$0	\$0	\$0	\$1,693,369
1999			\$1,627,654	\$591,408	\$6,369	(\$15,022)	\$586	\$0	\$0	\$13,652	\$2,224,646
2000				\$2,335,670	\$458,716	\$8,305	(\$45)	\$0	\$0	\$9,738	\$2,812,384
2001					\$1,358,775	\$310,567	\$35,359	\$3,341	(\$1,238)	(\$1,291)	\$1,705,512
2002						\$1,798,442	\$225,572	(\$3,795)	(\$590)	(\$11,876)	\$2,007,753
2003							\$1,593,858	(\$112,023)	(\$22,931)	(\$10,679)	\$1,448,224
2004								\$2,634,001	\$302,936	(\$48,992)	\$2,887,945
2005									\$1,460,954	\$470,648	\$1,931,602
Total	\$1,644,035	\$1,905,978	\$1,651,754	\$2,801,371	\$1,873,197	\$2,038,056	\$1,847,273	(\$118,340)	(\$30,238)	(\$3,913)	\$28,039,579

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY
 Ten Years of Loss Development ending June 30, 2005
 Reported Claim Counts: Property

Accident Year	Evaluation (as of) Date:									
	6/30/96	6/30/97	6/30/1998	6/30/1999	6/30/2000	6/30/01	6/30/2002	6/30/2003	6/30/2004	6/30/2005
1996	232									
1997		267 234	267 268	267 271	267 271	267 271	267 271	267 271	267 271	267 271
1998			235	285	285	285	285	285	285	285
1999				287	324	328	328	328	328	328
2000					239	289	292	293	293	293
2001						290	345	349	349	349
2002							277	332	333	335
2003								321	358	362
2004									312	369
2005										278
Total	232	501	770	1,110	1,386	1,730	2,065	2,446	2,796	3,137

Michigan Municipal Risk Management Authority
Comprehensive Annual Financial Report - June 30, 2005

**GENERAL FUND BUDGET COMPARISON
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Annual Budget</u>	<u>Actual</u>	<u>Percent</u>	<u>Variance Positive (Neg.)</u>
Resources				
Contributions				
MMRMA	\$45,436,000	\$49,938,216	110%	\$4,502,216
Affiliated	1,072,687	1,112,711	104%	40,024
Investment Income, Net	<u>8,000,000</u>	<u>14,488,446</u>	<u>181%</u>	<u>6,488,446</u>
Total	<u>\$54,508,687</u>	<u>\$65,539,373</u>	<u>120%</u>	<u>\$11,030,686</u>
Inhouse Services				
Membership Services	\$15,783,000	\$14,113,770	89%	\$1,669,230
Administrative Services	1,978,172	2,353,133	119%	(374,961)
Claims Services	1,748,877	1,586,140	91%	162,737
Risk Mgmt & Underwriting	5,171,027	5,116,314	99%	54,713
Information Services	<u>807,206</u>	<u>493,730</u>	<u>61%</u>	<u>313,476</u>
Total	<u>25,488,282</u>	<u>23,663,087</u>	<u>93%</u>	<u>1,825,195</u>
RETAINED RISK PORTION	<u>\$ 29,020,405</u>	<u>\$ 41,876,286</u>	<u>144%</u>	<u>\$ 12,855,881</u>
Payments				
Claims & Legal	<u>\$ 18,000,000</u>	<u>\$12,400,969</u>	<u>69%</u>	<u>(\$ 5,599,031)</u>
TO NET ASSETS	<u>\$11,020,405</u>	<u>\$29,475,317</u>	<u>267%</u>	<u>\$18,454,912</u>
ADD BEGINNING BALANCE	<u>\$184,780,853</u>	<u>\$184,780,853</u>		
ENDING NET ASSETS (BEFORE RESERVES)	<u>\$195,801,258</u>	<u>\$214,256,170</u>		

Michigan Municipal Risk Management Authority
Comprehensive Annual Financial Report - June 30, 2005

**COMPARATIVE STATEMENT OF
REVENUES, EXPENSES AND FUND BALANCES
GENERAL FUND
FOR THE TEN YEARS JUNE 30, 1996 THROUGH JUNE 30, 2005**

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
REVENUES					
Member Contributions	\$26,238,592	\$26,656,472	\$27,889,353	29,237,845	\$30,599,127
Other Income	1,084,256	1,135,915	733,490	756,309	719,181
Investment Income (Loss)	<u>11,056,357</u>	<u>8,804,726</u>	<u>21,691,335</u>	<u>10,865,350</u>	<u>14,696,041</u>
<i>Total Revenues</i>	<u>38,379,205</u>	<u>36,597,113</u>	<u>50,314,178</u>	<u>40,949,504</u>	<u>46,014,349</u>
EXPENSES					
Claims & Legal Expenses Paid	10,250,476	11,279,647	13,949,027	15,755,297	11,342,683
Increase (Decrease) in Reserves for Reported Losses & Legal Expense	(3,230,334)	1,780,205	376,050	3,625,627	1,148,496
Increase (Decrease) in Reserves for Claims Incurred But Not Reported	(5,075,024)	5,067,392	(2,945,520)	5,788,796	2,107,027
Reinsurance and Other Expenses	<u>11,628,459</u>	<u>11,321,617</u>	<u>11,489,450</u>	<u>13,012,908</u>	<u>14,881,918</u>
<i>Total Expenses</i>	<u>13,573,577</u>	<u>29,448,861</u>	<u>22,869,007</u>	<u>38,182,628</u>	<u>29,480,124</u>
REVENUES OVER (UNDER) EXPENSES	24,805,628	7,148,252	27,445,171	2,766,876	16,534,225
NET ASSETS, Beginning of Year	19,205,689	30,245,627	46,043,918	73,489,089	76,255,965
Unrealized Appreciation of Investments	(147,363)	8,650,039	----	----	----
Cumulative Effect of Accounting Change	<u>(13,765,690)</u>	<u>----</u>	<u>----</u>	<u>----</u>	<u>----</u>
NET ASSETS, End of Year	<u>\$30,098,264</u>	<u>\$46,043,918</u>	<u>\$73,489,089</u>	<u>\$76,255,965</u>	<u>\$92,790,190</u>

Michigan Municipal Risk Management Authority
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**COMPARATIVE STATEMENT OF
REVENUES, EXPENSES AND FUND BALANCES
GENERAL FUND
FOR THE TEN YEARS ENDED JUNE 30, 1996 THROUGH JUNE 30, 2005**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
REVENUES					
Member Contributions	\$31,506,662	\$35,849,700	\$41,691,304	\$48,281,979	\$49,758,286
Other Income	974,977	986,051	1,153,100	1,378,206	1,292,639
Investment Income (Loss)	<u>(14,951,155)</u>	<u>(3,769,786)</u>	<u>6,559,221</u>	<u>19,865,845</u>	<u>14,488,445</u>
<i>Total Revenues</i>	<u>17,530,484</u>	<u>33,065,965</u>	<u>49,403,625</u>	<u>69,526,030</u>	<u>65,539,370</u>
EXPENSES					
Claims & Legal Expenses Paid	17,214,650	15,823,033	17,950,227	13,830,482	12,400,970
Increase (Decrease) in Reserves for Reported Losses & Legal Expense	1,894,147	273,404	(3,347,662)	1,314,570	2,898,756
Increase (Decrease) in Reserves for Claims Incurred But Not Reported and ULAE	(6,123,322)	11,361,923	(656,498)	2,992,694	1,080,160
Reinsurance and Other Expenses	<u>15,415,567</u>	<u>20,627,870</u>	<u>21,736,841</u>	<u>23,191,125</u>	<u>23,663,085</u>
<i>Total Expenses</i>	<u>28,401,042</u>	<u>48,086,230</u>	<u>35,682,908</u>	<u>41,328,871</u>	<u>40,042,971</u>
REVENUES OVER (UNDER) EXPENSES	(10,870,558)	(15,020,265)	13,720,717	28,197,159	25,496,399
NET ASSETS, Beginning of Year	92,790,190	81,919,632	66,899,367	76,437,978	104,635,137
Unrealized Appreciation of Investments	----	----	----	----	----
Prior Period Adjustment ¹	----	----	(4,182,106)	----	----
Cumulative Effect of Accounting Change	----	----	----	----	----
NET ASSETS, End of Year	<u>\$81,919,632</u>	<u>\$66,899,367</u>	<u>\$76,437,978</u>	<u>\$104,635,137</u>	<u>\$130,131,536</u>

(1) Prior period adjustment for Unallocated Loss Adjustment Expenses. See Note 7 of the Audited Financial Statement.

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY
 Reported Loss History (Paid Losses Plus Case Reserves)
 For the Ten-Years Ended June 30, 2005

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Auto & Gen Liab										
Property	\$9,583,997	\$15,473,059	\$13,857,665	\$8,888,647	\$15,308,195	\$10,735,687	\$8,281,202	\$8,786,106	\$7,599,461	\$3,416,099
Auto Phys. Liability	\$1,739,362	\$1,693,369	\$2,224,646	\$2,812,384	\$1,705,512	\$2,007,753	\$1,448,224	\$2,887,945	\$1,931,602	\$2,384,211
	\$18,204	\$22,060	\$45,288	\$28,431	\$137,759	\$54,454	\$102,888	\$462,623	\$162,882	\$66,123
Total	\$11,341,563	\$17,188,488	\$16,127,599	\$11,729,462	\$17,151,466	\$12,797,894	\$9,832,314	\$12,136,674	\$9,693,945	\$5,866,433
Avg. Cost per claim	\$3,481	\$5,224	\$5,354	\$3,483	\$5,763	\$3,407	\$3,092	\$3,664	\$2,861	\$2,689

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY
Claim Activity
for the Ten-Year Period Ended June 30, 2005

In the last ten of the twenty years in which MMRMA has been retaining risk, it's members have incurred the following number of claims, which reflects the impact of changes in total membership.

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Auto & Gen. Liability										
Property	2,530	2,490	2,211	2,467	2,116	2,716	2,142	2,297	2,364	1,346
Auto Phys. Liability	267	271	285	328	293	349	335	362	369	278
	461	529	516	573	567	691	703	653	655	558
Total	3,258	3,290	3,012	3,368	2,976	3,756	3,180	3,312	3,388	2,182
Claims Settled										
Claims Pending	3,242	3,272	2,989	3,356	2,931	3,666	3,053	3,121	3,104	1,490
	16	18	23	12	45	90	127	191	284	692
Total	3,258	3,290	3,012	3,368	2,976	3,756	3,180	3,312	3,388	2,182
Member Count	274	282	290	332	310	329	337	337	341	342

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY
Member Growth Analysis
for the Ten-Year Period Ended June 30, 2005

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Number of Members	274	282	290	332	310	329	337	337	341	342
Member Assessments	\$27,267,141	\$27,791,762	\$28,621,720	\$28,987,990	\$29,794,829	\$30,851,576	\$34,822,497	\$40,663,602	\$47,749,641	\$50,781,467
Number of Claims	3,258	3,290	3,012	3,368	2,976	3,756	3,180	3,312	3,388	2,182
Incurred Losses	\$11,341,563	\$17,188,488	\$16,127,599	\$11,729,461	\$17,151,466	\$12,797,894	\$9,832,314	\$12,136,674	\$9,693,945	\$5,866,434

IV-B

Michigan Municipal Risk Management Authority
Comprehensive Annual Financial Report - June 30, 2005

2005 SCOPE OF COVERAGES

The major categories of insurance protection MMRMA provides its Members are as follows:

PROPERTY

- Real Property
- Personal Property
- Fine Arts
- Inland Marine
- Electronic Data Processing Equipment
- Boilers and Machinery
- Income/Extra Expense
- Earthquake
- Flood
- Debris Removal
- Accounts Receivable
- Valuable Papers
- Storm or Sanitary Sewer Backup

GENERAL LIABILITY

- Comprehensive General Liability
- Public Officials Liability
- Police Professional Liability
- Contractual Liability
- Judicial Tenure
- Volunteer Medical Payments
- First Aid Coverage

AUTOMOBILE LIABILITY

- Bodily Injury
- Property Damage
- Personal Injury
- Michigan No-Fault
- Uninsured/Under-insured Motorist Coverage

CRIME

- Broad Form Money and Securities
- Employee Fidelity & Faithful Performance
- Depositors Forgery
- Public Official Bonds

AUTO PHYSICAL DAMAGE

Michigan Municipal Risk Management Authority
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LIABILITY REINSURANCE PORTFOLIO: April 1, 2004 - March 31, 2005

Reinsurer	Net Premiums Written (\$000)	Policyholders' Surplus (\$000)	A.M. Best Rating
Partner Reins Company of the U.S.	\$877,442	\$586,543	A+
PMA Capital Insurance Company	(173,407)	224,511	B+
Liberty Mutual Insurance Co.	6,698,479	7,255,350	A
ACE Property & Casualty Ins. Co.	1,312,682	797,714	A
GE Reinsurance Corporation	486,192	689,117	A
St. Paul Fire & Marine Insurance Co.	4,481,115	5,508,658	A+
Platinum Underwriters Reins., Inc.	715,432	403,121	A
Government Entities Mutual, Inc.	6,893	9,844	NR-1

LIABILITY REINSURANCE PORTFOLIO: April 1, 2005 - March 31, 2006

Reinsurer	Net Premiums Written (\$000)	Policyholders' Surplus (\$000)	A.M. Best Rating
ACE Property & Casualty Ins. Co.	\$1,312,682	\$797,714	A
Partner Reins. Company of the U.S.	877,442	586,543	A+
Liberty Mutual Insurance Co.	6,698,479	7,255,350	A
Government Entities Mutual, Inc.	6,893	9,844	NR-1
GE Reinsurance Corporation	486,192	689,117	A

PROPERTY REINSURANCE PORTFOLIO: July 1, 2004 - June 30, 2005

Reinsurer	Net Premiums Written (\$000)	Policyholders' Surplus (\$000)	A.M. Best Rating
ACE Bermuda Insurance Ltd.	684,467	1,864,318	A+
Underwriters at Lloyd	Not available	Not available	Not available
The Travelers Indemnity Co.	3,106,197	4,639,342	A+
Government Entities Mutual, Inc..	6,893	9,844	NR-1

Michigan Municipal Risk Management Authority
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2005 COVERAGE OVERVIEW
LIABILITY COVERAGE

Layer 1 \$925,000 xs SIR. Retained 100% by MMRMA

Layer 2 \$4,000,000 xs \$1,000,000. Beginning April 1, 2005, this layer is subject to an aggregate deductible for losses otherwise recoverable of \$4,000,000.

April 1, 2004 - March 31, 2005

GE Reinsurance Corp.	30%
ACE Prop. & Cas. Co.	25%
Govt. Entities Mutual	15%
MMRMA	15%
Partner Reins. Co.	<u>15%</u>
	100%

April 1, 2005 - March 31, 2006

GE Reinsurance Corp.	50%
ACE Prop. & Cas. Co.	30%
Partner Reins. Co. of U.S.	<u>20%</u>
	100%

Layer 3 \$5,000,000 xs \$5,000,000

April 1, 2004 - March 31, 2005

GE Reinsurance Corp.	50%
ACE Prop. & Cas. Co.	25%
Liberty Mutual	15%
Partner Reins. Co.	<u>10%</u>
	100%

April 1, 2005 - March 31, 2006

GE Reinsurance Corp.	50%
Govt. Entities Mutual	20%
Liberty Mutual	15%
Partner Reins. Co.	10%
ACE Prop. & Cas. Co.	<u>5%</u>
	100%

Layer 4 \$5,000,000 xs \$10,000,000

April 1, 2004 - March 31, 2005

GE Reinsurance Corp.	40%
Platinum Underwriters	40%
Liberty Mutual	<u>20%</u>
	100%

April 1, 2005 - March 31, 2006

GE Reinsurance Corp.	40%
ACE Prop. & Cas. Co.	30%
Liberty Mutual Ins. Co.	20%
Govt. Entities Mutual	<u>10%</u>
	100%

Michigan Municipal Risk Management Authority
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PROPERTY COVERAGE

Layer 1 90% of first \$100,000. Retained 100% by MMRMA

Layer 2 \$4,000,000 xs \$1,00,000. Retained 100% by MMRMA.

Layer 3 \$10,000,000 xs \$500,000

ACE Limited	45%
Travelers	45%
GEM	<u>10%</u>
	100%

Layer 4 \$65,000,000 xs \$10,000,000

ACE Limited	50%
Travelers	<u>50%</u>
	100%

Layer 5 \$125,000,000 xs \$75,000,000

Lloyds	100%
--------	------

Terrorism \$25,000,000 per occurrence

Travelers	100%
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AUTO PHYSICAL DAMAGE COVERAGE

\$1,485,000 xs 15,000; Retained 100% by MMRMA

Michigan Municipal Risk Management Authority
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GLOSSARY

Accident Period - Period that includes the date of occurrence of loss, regardless of the report and payment dates.

ALAE (Allocated Loss Adjustment Expenses) - Attorneys' fees, investigative fees, etc., associated with individual claims.

CAFR - Comprehensive Annual Financial Report.

Case Reserve - A claim administrator's estimate of the future payments on a known case.

Case Reserve Development - Changes in reserve amounts on known cases as more information becomes available over time.

Development Triangles - Information on number of claims or amounts of losses organized into triangular form for determination of development factors.

Discount Factor - Factor to decrease the amount of money required at some future date so that the discounted current amount plus accrued interest will equal the required amount at the future date.

GAAP - Generally accepted accounting principles.

GASB - Governmental Accounting Standards Board.

Incurred Losses - Sum of paid losses and case reserves, including ALAE.

IBNR (Incurred But Not Reported) - Losses that have not been reported, arising out of claims that have occurred. This includes both losses for claims that have not been reported and case reserve development of reported claims.

ULAE (Unallocated Loss Adjustment Expense) - Cost of handling claims not directly attributable to individual claims.

Ultimate Losses - An estimate of the total dollar amount, including ALAE, that will be paid on a particular set of claims.